LEVERAGING REMITTANCES FOR FAMILIES AND COMMUNITIES

HEARING

BEFORE THE

SUBCOMMITTEE ON
THE WESTERN HEMISPHERE

OF THE

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LEVERAGING REMITTANCES FOR FAMILIES AND COMMUNITIES

TUESDAY, OCTOBER 2, 2007,

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE WESTERN HEMISPHERE,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:12 p.m. in room 2172, Rayburn House Office Building, Hon. Eliot L. Engel (chairman of the subcommittee) presiding.

Mr. ENGEL. Good afternoon. A quorum being present, the Subcommittee on the Western Hemisphere will come to order. Ladies and gentlemen, when we think about how best to help our friends in the Western Hemisphere, we tend to think about foreign aid, trade or immigration reform. All of these are certainly important, but they are literally being given a run for their money by the enormous amount of cash families are receiving from their sons, daughters, husbands, wives and others living here in the United States going to other countries in the Western Hemisphere.

In fact, $62.3 billion in remittances reached Latin America and the Caribbean in 2006. For the fourth year in a row, this exceeded the combination of all foreign debt investment and development assistance to the region. Seventy-five percent of these remittances or $45 billion was sent from the United States.

Our foreign aid to the Western Hemisphere pales in comparison to this figure. Even if we were to drastically increase U.S. assistance to the region, something which I have called for and will continue to call for, it would not even come close to matching remittance flows sent from the United States to Latin America and the Caribbean.

The purpose of today's hearing is to begin to explore how we in Congress can best support Latin American countries as they help families and communities leverage their remittances. Let me be clear from the start. I recognize that sending remittances is a completely private matter. Remittances are sent from family member to family member and should not be taxed by governments or viewed by sender countries as official development assistance. I hope we can all agree on this point.

But at the same time, let us not forget the phrase it takes money to make money. My dad used to say that a lot. Well, families who receive remittances are beginning to have money and they can target those resources to a worthy investment, such as a new home, education or a small business. In recent years, the debate on remittances has focused in part on reducing transfer costs.

As the Inter-American Dialogue details in a recent task force report on remittances, in the mid 1990s the cost of sending $200 averaged about $30 or 15 percent. By 2001, this cost had dropped to about $20 or 10 percent and to about $12 or 6 percent by 2005. This means that the amounts saved in 2005 alone was approximately $5 billion which far exceeded last year's total foreign aid to Latin America and the Caribbean.

Latin America has moved from being one of the most expensive remittance markets in the world to being one of the least expensive. With such immediate economic potential coming from transfer fee reductions, I would welcome a further decrease in fees but I think we also must recognize the significant progress that already has been made in recent years.

If we are to effectively leverage remittances for development, the first and most important step is bringing Latin America's poor into the banking system. Both remittance recipients and senders need to enter the financial mainstream. Remittance transfers should be account-to-account, bank-to-bank.

As the Inter-American Development Bank recently reported, this will require an attitude change toward banking the poor, all the way from upper management to the teller line. I believe that the U.S. Government can play an important role in encouraging United States and Latin banks to bring remittance recipients and senders into the banking sector. I call on some of the big transnational American banks which own some of the large Latin American banks to bring new products and even a new approach to the Latin American subsidiaries to help bank the unbanked.

Moving into the banking sector will allow the poor to acquire important financial products ranging from insurance and microfinance small business loans to home construction and agricultural loans. Immigrants living in the United States can also use banks to make direct payments to universities that their family members in Latin America plan to attend.

Keeping children in school instead of in the workplace is one of the best means of helping families throughout Latin America and the Caribbean climb out of poverty. But working with bank officials alone is not enough. Rural populations in Latin America need to be better educated about why banks matter and how they can capitalize on entering the financial mainstream.

Poor, uneducated families have little trust in the seemingly distant banking system. While one can see and touch the proverbial cookie jar, the only thing that grows inside is mold and not compound interest. We need to work with communities and governments to the south to break down taboos about the financial system and help people understand the values of a bank account. I would be remiss not to mention my concern with the recent decline in remittances sent back to Latin America.

The percentage of Mexicans, for example, who regularly send remittances fell to 64 percent in the first half of 2007, which is down from 71 percent in 2006. Some have blamed the slowdown on the housing market for this decline, while others argue that growing discrimination against Latin Americans and anti-immigration sentiment is the root cause. I very much hope it is the former and not the latter.

I know there are critics who say that we should not facilitate remittance flows. They contend that this just takes money out of America, and worse they claim it is a back door for criminals and even terrorists to loan them money. On the first point, I say families can use their money any way they want but moreover the only way to stop the flow of immigrants seeking jobs in the United States is to promote job creation in Latin American countries. Remittances can help do this. On the second point, I have yet to see any evidence supporting claims of massive money laundering by poor immigrants.

I am now pleased to introduce our distinguished witnesses testifying today. During our first panel, we are honored to welcome Paul Bonicelli, the Assistant Administrator for Latin America and the Caribbean at the U.S. Agency for International Development. He is the former Deputy Assistant Administrator for USAID's Democracy and Governance Bureau and also a former Dean of Academic Affairs at Patrick Henry College.

But most importantly to all of us here, he served on the staff of the House Western Hemisphere Subcommittee from 1997 to 1999, and this is Paul's first time testifying before the subcommittee since his confirmation, and we are delighted to have him here.

I am also very happy that we have three remittance experts testifying on our second panel today. Manuel Orozco is a senior associate at the Inter-American Dialogue and is a real authority on global remittances. Ernesto Armenteros is the chief executive officer of Grupo Quisqueyana, a money transfer organization based in my hometown of New York City. And Kai Schmitz is executive vice president and chief operating officer of Microfinance International Corporation. I thank you, and I am pleased to call on Ranking Member Burton for his opening statement.

[The prepared statement of Mr. Engel follows:]

PREPARED STATEMENT OF THE HONORABLE ELIOT L. ENGEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK, AND CHAIRMAN, SUBCOMMITTEE ON THE WESTERN HEMISPHERE

A quorum being present, the Subcommittee on the Western Hemisphere will come to order.

Ladies and gentlemen, when we think about how best to help our friends in the Western Hemisphere, we tend to think about foreign aid, trade or migration reform. All of these are certainly important. But they are literally being given a run for their money by the enormous amount of cash families are receiving from their sons, daughters, husbands, wives and others living here in the United States.

In fact, $62.3 billion in remittances reached Latin America and the Caribbean in 2006. For the fourth year in a row, this exceeded the combination of all Foreign Direct Investment (FDI) and development assistance to the region. 75% of these remittances—$45 billion—was sent from the United States. Our foreign aid to the Western Hemisphere pales in comparison to this figure. Even if we were to drastically increase U.S. assistance to the region—something which I have called for and will continue to call for—it would still not even come close to matching remittance flows sent from the U.S. to Latin America and the Caribbean.

The purpose of today's hearing is to begin to explore how we in Congress can best support Latin American countries as they help families and communities leverage their remittances. Let me be clear from the start: I recognize that sending remittances is a completely private matter. Remittances are sent from family member to family member and should not be taxed by governments or viewed by sender countries as official development assistance. I hope we all can agree on this point.

But, at the same time, let's not forget the phrase, "It takes money to make money." Well, families who receive remittances are beginning to have money, and

they can target those resources to a worthy investment, such as a new home, education, or a small business.

In recent years, the debate on remittances has focused, in part, on reducing transfer costs. As the Inter-American Dialogue details in their recent task force report on remittances, in the mid-1990s, the cost of sending $200 averaged about $30 or 15%. By 2001, this cost had dropped to about $20 or 10% and to about $12 or 6 percent by 2005. This means that the amount saved in 2005 alone was approximately $5 billion which far exceeded that year's total foreign aid to Latin America and the Caribbean. Latin America has moved from being one of the most expensive remittance markets in the world to being one of the least expensive. With such immense economic potential coming from transfer fee reductions, I would welcome a further decrease in fees. But I think we also must recognize the significant progress that already has been made in recent years.

If we are to effectively leverage remittances for development, the first and most important step is bringing Latin America's poor into the banking system. Both remittance recipients and senders need to enter the financial mainstream. Remittance transfers should be account to account, bank to bank. As the Inter-American Development Bank recently reported, this will require an attitude change towards banking the poor "all the way from upper management to the teller line." I believe that the US government can play an important role in encouraging US and Latin banks to bring remittance recipients and senders into the banking sector. I call on some of the big transnational American banks which own some of the large Latin banks to bring new products and even a new approach to their Latin American subsidiaries to help "bank the unbanked."

Moving into the banking sector will allow the poor to acquire important financial products ranging from insurance and microfinance small business loans to home construction and agricultural loans. Immigrants living in the United States can also use banks to make direct payments to universities that their family members in Latin America plan to attend. Keeping children in school instead of in the workplace is one of the best means of helping families throughout Latin America and the Caribbean climb out of poverty.

But working with bank officials alone is not enough. Rural populations in Latin America need to be better educated about why banks matter and how they can capitalize on entering the financial mainstream. Poor, uneducated families have little trust in the seemingly distant banking system. While one can see and touch the proverbial cookie jar, the only thing that grows inside is mold, not compound interest. We need to work with communities and governments to the south to break down taboos about the financial system and help people understand the values of a bank account.

I would be remiss not to mention my concern with the recent decline in remittances sent back to Latin America. The percentage of Mexicans who regularly send remittances fell to 64% in the first half of 2007 which is down from 71% in 2006. Some have blamed the slowdown in the housing market for this decline while others argue that growing discrimination against Latin Americans and anti-immigration sentiment is the root cause. I very much hope it is the former and not the latter.

I know there are critics who say that we should not facilitate remittance flows. They contend that this just takes money out of America, and worse, they claim it's just a back door way for criminals and even terrorists to launder money. On the first point, I say families can use their money any way they want. But, moreover, the only way to stop the flow of immigrants seeking jobs in the U.S. is to promote job creation in Latin American countries. Remittances can do this. On the second point, I am yet to see any evidence supporting claims of massive money laundering by poor immigrants.

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Thank you. I am pleased to call on Ranking Member Burton for his opening statement.

Mr. BURTON. Thank you, Mr. Chairman, and I want to apologize, Doctor, for having to leave. We are having a big hearing down the hall on Blackwater and what happened and how we should deal with it. I would like to thank the chairman for holding this important hearing to discuss remittances—I have got a little cold—sent from the United States to Latin America.

I have to take a moment to emphasize that I do not condone the actions of those who have broken our longstanding laws in order to illegally reside in our country, and that simply means that I do not believe in amnesty. The United States is historically a country that opens its doors to immigrants who seek a better life in the United States while following the laws as every other citizen is expected to do.

In order to maintain security and order in this nation, it is important that the movement of individuals acting illegally in the U.S. is not ignored. With that said, assuming that the remittances originate from legal U.S. residents, there is tremendous opportunity to promote private sector development and expand access to needed capital in areas such as education, housing and small business startup and expansion programs.

The market has been at play with the transfer of remittances. As a result, as the chairman said, the cost of sending money down to Latin America the percentage has dropped dramatically. However, more can be done to ensure that the billions of dollars transferred to poor regions in Mexico and Central America are used to facilitate the social and economic activity that in turn builds vibrant, active communities.

The first challenge seems to be bringing poor individuals in Latin America into the banking system, familiarizing them with the process, and dispelling fears of corruption or mismanagement of their funds. Second, banks in the U.S. must find new and innovative ways to work with these people, and the banks and the poor in those rural areas where most of the remittances are sent.

Finally, we need to tap into the new microbusiness ventures taking root in Latin America and explore how they might play a productive role in increasing business and trust in banking and investment procedures in small Latin American communities. It is these small steps that work to transform entire communities.

I am interested in learning more about Spain's practice of transmitting the majority of remittances sent to the Andean region. It appears they have had success with their program. Additionally, given that the tremendously large amount of over $40 billion is being sent from the United States, I am interested in learning what we can do to ensure that this aid garners the same returns as other aid sent to that region.

Half of the challenge is already solved as the monies reaching the poor rural areas that are often hard to penetrate. Now we must work together to assist the poor rural communities in gaining marketable returns on their remittances once they are received.

I look forward to hearing more on these topics, and I might say that Doctor and other witnesses I will try to get back here as soon as possible but I have some very fine staffers who will be here to

make sure I get the full flavor of your statement and your questions. Thank you, Mr. Chairman, I yield back the balance of my time.

Mr. ENGEL. Thank you, Mr. Burton. I now would like to give our other members a chance to make an opening statement if they so desire. I first call on the vice chairman of the subcommittee, Mr. Sires of New Jersey.

Mr. SIRES. Thank you, Mr. Chairman. Coming from a district where right around this time there seems to be an increase of remittance as the holidays approach and knowing many of the families what they basically do is they pool an amount of money together from the family members that are here and remit that money during the holidays, and if anybody has any concern where this money goes, I can tell you it goes directly to the families that need it. Right to those families.

I know people have concern where the money goes. I lived through it. I live every day. The money that is sent I have never heard people complaining that the money that they sent goes for anything else but what the people need in those countries that is remitted to. So I am looking forward to learning more about the process, and I want to thank you for being here or the members that are going to testify before this committee. Thank you very much, Mr. Chairman.

Mr. ENGEL. Thank you. Mr. Faleomavaega of American Samoa.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman. I want to thank you for your leadership and for this initiative that you have taken in holding this hearing. I think it is very important and certainly to the members of our committee, and I certainly want to offer my personal welcome to our distinguished witnesses that will be testifying, who will be testifying here this afternoon.

Mr. Chairman, this issue is not a new issue, and it is not just restricted to the Western Hemisphere. It is a worldwide issue of the question of sending remittances to families, people working in other parts of the world. It happens all the time. There is a Western Union office somewhere outward in the middle of nowhere but the thing that I like, as my good friend from New Jersey has stated earlier, these funds or these monies that are sent from families home goes directly to the needs of the benefit of the families.

You mentioned, Mr. Chairman, that the amount of remittances that are being sent back home in Central and South America is in the area of $62.3 billion. I can tell you as chairman of the Asia Pacific subcommittee, I have an example of the Philippines alone. I think they send remittances to their family Filipinos who work all over the world, the Middle East, in Africa and even in Central and South America.

I think the remittances they send home are somewhere well over $20 billion a year. I think some 500,000 Filipinos who work in other parts of the world, and for the benefit of these families do this. I know my good friend, the gentleman from Indiana, has stated right outward in terms of the complications that we are faced with the fact that we are talking about 12 million illegal immigrants who work here in our country, and I might also note that there has been a lot of misinformation going around suggesting

that these 12 million illegal immigrants are from Mexico. It is not true.

I think there are only about 5 million of them. The others are from Central and South America, and secondly I also want to note that we are now having problems now in picking citrus and agricultural products in the country simply because of the crackdown that we are making on catching or putting these illegal immigrants, either deporting them or just having them not working anymore, and I think that is another real major issue, and it has always been said how many years now that we have had to confront with this issue of illegal immigrants.

The question is the other side of the coin. I say that on the other hand it has been a real blessing for the families of thousands, hundreds of thousands of families who have benefited from this question of remittances. I look forward to hearing from our witnesses this afternoon, and again thank you, Mr. Chairman, for calling this hearing.

Mr. ENGEL. Thank you very much. Now it is my pleasure again to call upon our witness in the first panel, Dr. Paul Bonicelli, who is the Assistant Administrator for Latin America and Caribbean at the USAID. Paul, I think it is more intimidating sitting down there than it is sitting up here. They deliberately raised us higher so we can kind of intimidate people that testify but since you are an old hand in this committee, I am sure you are not intimidated, and I look forward to hearing your testimony.

STATEMENT OF THE HONORABLE PAUL J. BONICELLI, PH.D., ASSISTANT ADMINISTRATOR, BUREAU FOR LATIN AMERICA AND THE CARIBBEAN, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. BONICELLI. Mr. Chairman, thank you for welcoming me, members of the committee, and thank you for acknowledging my homecoming. You stole my line. I was about to say it is probably more intimidating looking up than sitting behind you where we could make faces and do other things. I appreciate the chance to be here and have the opportunity to discuss USAIDs work in the area of remittances in Latin America and the Caribbean.

USAID is playing an important role in identifying and supporting ways in which the flow of remittances to Latin America and the Caribbean countries can be channeled to more directly support those families that we have talked about and the communities left behind and thereby stimulate economic growth and reduce poverty, the ultimate goal when we look at it, but not the ultimate goal when an individual family look at it.

With the flow of remittances into the region having increased over the past few years, donors are now focusing increased attention on how remittances could be better leveraged to foster economic development. Today I will first place the question of remittances in the context of broader economic growth programs supported by USAID. I will then briefly describe our current remittance related work, mention a study helped to define our work in the future, and then return to the matter of putting remittance work into a larger context.

Let me comment first on the context of the broader economic growth programs that we support in Latin America and the Caribbean. Many economies in the region have been unable to generate sufficient jobs each year just to keep their populations fully and gainfully employed. Unfortunately, many jobseekers have had to abandon their homes and families and move to the stronger economies in the region, many of them of course ending up legally and illegally in the United States.

The families and communities left behind are made poorer and weaker. Families become more vulnerable to gang recruitment, communities are left without leadership, farms and small businesses are left with few if any experienced workers. Of course many of the jobseekers are able to find relatively good employment in the United States or other countries and recognize an obligation to their families that they have left behind.

They often remit an important part of their earnings back to their families. These remittances often replace and even surpass their previous earnings and clearly help their families but that does not mean that the families that remain behind and their communities are not still poorer and weaker in many ways. While remittances do help to alleviate poverty, they are not the solution to a very difficult economic challenge.

In fact, there is evidence that remittances in some communities are undercutting the needs of those left behind to find jobs and therefore make a contribution to their local economies. There are labor shortages in some rural areas of El Salvador for example because the arrival of remittances appears to reduce the need and incentive to work.

We need to remind ourselves that the most important challenge is to strengthen the economies of the region through expanding trade opportunities and promoting private sector led growth. This will enable the poor of the region to find employment in their own communities and countries, thereby reducing the need to migrate to the U.S. in order to provide for their families.

To this end, USAID commits itself to strengthening our economic growth projects in the region, particularly those that will have a direct impact on the poor communities that are losing so many of their leaders, their youth and their productive members. With this background, let me focus on leveraging remittances for families and communities.

The fact that remittances over the past 15 years have increased from less than $6 billion in 1990 to over $50 billion in 2005 is striking, as has been mentioned. The agency is quite alert to the importance and dynamics of remittances in the region. We are quite fortunate that the Inter-American Development Bank and the World Bank are actively tracking and studying remittances. We find their work very useful.

We understand that the importance of remittances varies dramatically across countries. The impact on the economy tends to be felt most acutely in some of the smaller countries. Remittances can constitute more than 10 percent of GDP in at least nine of the smaller countries in the region. In some countries, remittances have an impact on exchange rates and inflation as well as on the labor force presenting difficult macroeconomic challenges.

Let me turn now to reviewing some of our recent and current work relating to remittances. USAID has recognized that remittances represent an important resource for the families left behind. To facilitate the process of remittances and to reduce the transaction cost, USAID has undertaken a number of activities. We have supported the Summit of the America's commitment to help lower the transaction cost, an effort which the Treasury Department has led.

We have worked with NGOs to increase cooperation between microfinance institutions and money transfer companies. The effort has led to integration of their services, which in turn helped increase the delivery of more financial services to the previously unbanked population. We have sponsored such activities in Mexico, El Salvador, Guatemala, Nicaragua, Haiti, Bolivia, Colombia, Ecuador and Peru, and the work continues in several of these countries. A country specific summary of USAID assistance in the remittance area is provided in my written testimony.

Let me cite one example, a country specific example. USAID's Mexico remittance work is an integral component of our strategy to contribute to a more inclusive financial system in Mexico where 60 to 80 percent of the population lacks access to formal financial services of any kind. In this context, in 2001, USAID Mexico entered into a highly successful initiative with Caja Popular Mexicana, the country's largest savings and credit cooperative, with over 1 million members and $1 billion in United States assets, and the World Council of Cooperatives and Credit Unions.

In the first 4 years of this USAID support, CPM managed a turnaround that places them among the leaders of all Latin America in terms of outreach to small enterprises and low income households. One of the most innovative aspects of this turnaround was CPMs ability to launch and expand its remittance transfer service, partnering with U.S. credit unions mostly in California and Texas.

After a gradual start, in 2003 they transferred only 2,921 remittance worth $1.2 million, the initiative has exploded and CPM now receives 250,000 remittances a year, worth well over $101 million. By charging only $10 per remittance, CPM was a positive market force that contributed to bringing down the average cost of a $300 remittance to Mexico from $28 in 1999 to its current levels of only $10.

The most exciting part of the partnership is that CPM views remittances as much more than a money transfer. It is a way to integrate the unbanked into the financial system. A growing number of remittance receivers become CPM members, making them eligible for the cooperative's full range of services, from savings to credit and insurance. In this way, USAID's support has supported economic development, allowing recipients to save for important purposes like their children's education or leverage funds into productive projects such as small businesses and home purchases.

Finally let me briefly comment on the possible work of USAID remittances in the region. The Bureau of Latin America and the Caribbean recently commissioned a study to better understand issues related to both remittances and diaspora communities. The study is structured around a set of six broad principles. The first issue lays the foundation for the analysis of the economic impact

of remittances by reviewing remittance trends in Latin America and the Caribbean, focusing on both regional and country specific trends.

The next section explores the effects of remittances on recipient economies and how potential negative effects of these flows might be mitigated while positive effects are promoted. In the third section, the authors consider the experience with and lessons learned from the microfinance institution entry into the money market transfer. The fourth section considers whether there is an ongoing need to strengthen financial institutions and regulators to increase the volume of remittances flowing through them and to support financial institutions' efforts to bank the unbanked.

The report then discusses a number of possible future activities, noting that they are difficult and they are risky and that best practices have not clearly been established. The report concludes with a set of overarching recommendations regarding potential future programming in these areas.

Currently the Bureau for Latin America and the Caribbean is in the process of discussing this study and drawing implications for our programs. The unearmarked funds available for economic growth activities are low and are not likely to rise so we do not have much leeway in thinking about new activities. As I mentioned, our commitment is to a broader economic growth program that will increase employment and diminish the need to migrate and subsequently to send remittances back home.

Thus, while there may be some opportunities to work in support of leveraging remittances for the families and communities left behind, the opportunity cost of that work would be to reduce more direct investment and development assistance aimed at enhancing education, productivity and economic opportunities in Latin America and the Caribbean.

Building on USAID's field experience with remittance activities as well as the findings and recommendations emerging from the remittances assessment that I summarized above, USAID is pursuing discussions with partners in the development community. Through this dialogue, we hope to identify which potential USAID supported interventions in a tight budget environment could advance our knowledge and understanding of how communities themselves can enhance and perhaps leverage the impact of remittances on economic growth and poverty reduction in countries across the region.

We must be careful, however, to ensure that any activities in this area do not crowd out the more direct investments in the economic development of the region. Mr. Chairman, that concludes my statement, and I am happy to answer any questions that you or the committee may have. Thank you.

[The prepared statement of Mr. Bonicelli follows:]

PREPARED STATEMENT OF THE HONORABLE PAUL J. BONICELLI, PH.D., ASSISTANT ADMINISTRATOR, BUREAU FOR LATIN AMERICA AND THE CARIBBEAN, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

INTRODUCTION

Mr. Chairman and members of the Committee, I am pleased to have the opportunity to discuss USAID work in the area of remittances in Latin America and the Caribbean. USAID is playing an important role in identifying and supporting ways in which the flow of remittances to Latin American and Caribbean (LAC) countries

can be channeled to more directly support the families and communities left behind and, thereby, stimulate economic growth and reduce poverty. With the flow of remittances into the region having increased over the past few years, donors are now focusing increased attention on how remittances could be better leveraged to foster economic development.

Today I will first place the question of remittances in the context of the broader economic growth programs supported by USAID. I will then briefly describe our current remittance-related work, mention a study meant to help us define our work in the future, and then return to the matter of putting remittance-work into a larger context.

THE CONTEXT

Many economies in the region have been unable to generate sufficient jobs each year to keep their populations fully and gainfully employed. Unfortunately, many job-seekers have had to abandon their homes and families and move to the stronger economies in the region, many of them of course ending up legally and illegally in the United States.

The families and communities left behind are made poorer and weaker. Families become more vulnerable to gang recruitment. Communities are left without leadership. Farms and small businesses are left with few, if any, experienced workers.

Of course, many of the job seekers are able to find relatively good employment in the United States or other countries and recognize an obligation to the families they have left behind. They often remit an important part of their earnings back to their families. These remittances often surpass their previous earnings and clearly help their families. But that doesn't mean that the full development impact of the remittance flows has been realized. Remittances recipients more often than not lack access to the financial services that would enable them to most effectively manage their receipts. This limits the ability of the families to strengthen their financial well-being, forcing them to save cash under the mattress and borrow funds from the local money lender. In addition, weak macroeconomic management by some governments and underdeveloped financial systems in the recipient economies have limited the ability of the markets to efficiency allocate funds. As a result, higher rates of inflation have been associated with (but not caused by) jumps in remittance inflows.

We need to remind ourselves that the most important challenge is to strengthen the economies of the region through expanding trade opportunities and promoting private-sector-led economic growth. This will enable the poor of the region to find employment in their own communities and countries and do not have to migrate to the U.S. in order to provide for their families. To this end, USAID recommits itself to strengthening our economic growth projects in the region, particularly those that will have a direct impact on the poorer communities that are losing so many of their leaders, their youth and productive members. In this context, it is critical that the financial systems in these economies be strengthened and access to the full range of financial services be greatly expanded in Latin America.

With this background, let me focus on leveraging remittances for families and communities.

The fact that remittances over the past 15 years have increased from less than six billion dollars in 1990 to over 50 billion dollars in 2005 is striking. The Agency is quite alert to the importance and dynamics of remittances in the region. We are quite fortunate that the Inter-American Development Bank and the World Bank are actively tracking and studying remittances. We find their work quite useful. We understand that the importance of remittances to a country varies dramatically across countries. The impact on the economy tends to be felt most acutely in some of the smaller countries. Remittances constitute more than ten percent of GDP in at least nine of the smaller countries in the region. But the longer term impact of the flows will be limited without improvements in macroeconomic management and significantly enhanced financial systems.

OUR RECENT AND CURRENT WORK

USAID has recognized that remittances do represent an important resource for the families left behind. To facilitate the remittance process and reduce the transaction costs of remittances, USAID has undertaken a number of activities. We have supported the Summit of the Americas commitment to help lower the transaction cost, an effort which the Treasury Department has led. We have worked with NGOs to increase cooperation between microfinance intuitions and money transfer companies. The effort has led to integration of their services which, in turn, helped increase the delivery of more financial services to the previously "un-banked" population. We have sponsored such activities in Mexico, El Salvador (through a grant

to PADF), Guatemala, Nicaragua, Haiti, Bolivia, Colombia, Ecuador, and Peru, and the work continues in several of the countries.

A country-specific summary of USAID assistance in the remittance area is provided in the Annex. However, let me cite one example. USAID/Mexico's remittance work is an integral component of its strategy to contribute to a more inclusive financial system in Mexico, where 60 to 80 percent of the population lacks access to formal financial services of any kind. In this context, in 2001, USAID/Mexico entered into a highly successful initiative with Caja Popular Mexicana (CPM), the country's largest savings and credit cooperative (with over 1 million members, and US$1 billion in assets), and the World Council of Cooperatives and Credit Unions (WOCCU). In the first four years of USAID support, CPM managed a turnaround that places them among the leaders of all Latin America in terms of outreach to micro and small entrepreneurs and low income households. One of the most innovative aspects of this turnaround was CPM's ability to launch and expand its remittance transfer service, partnering with U.S. credit unions (mostly in California and Texas). After a gradual start (in 2003, they transferred 2,921 remittances worth $1.2 million), the initiative has exploded, and CPM now receives 250,000 remittances a year worth over $101 million. By charging only ten dollars per remittance, CPM was a positive market force that contributed to bringing down the average cost of a $300 remittance to Mexico from $28 in 1999 to its current levels of only $10. The most exciting part of this partnership is that CPM views remittances as much more than a money transfer: it is a way to integrate the "unbanked" into the financial system. A growing number of remittance receivers become CPM members, making them eligible for the cooperative's full range of services, from savings to credit and insurance. In this way, USAID supports economic development, allowing recipients to save for important purposes like their children's education, or leverage these funds into productive projects such as small businesses and home purchases.

LOOKING TO THE FUTURE

The Bureau for Latin America and the Caribbean recently commissioned a study to better understand issues related to both remittances and diaspora communities. The study is structured around a set of six broad issues. The first section lays the foundation for the analysis of the economic impact of remittances by reviewing remittance trends in Latin America and the Caribbean, focusing on both regional and country specific trends. The next section explores the effects of remittances on recipient economies and how potential negative effects of these flows might be mitigated while positive effects are promoted. In the third section the authors consider the experience with and lessons learned from microfinance institution (MFI) entry into the money transfer market. The fourth section considers whether there is an ongoing need to strengthen financial institutions and regulators to increase the volume of remittances flowing through them and support financial institutions' efforts to bank the unbanked. The report then discusses a number of possible future activities, noting that they are difficult and risky, and that best practices have not been clearly established. The report concludes with a set of overarching recommendations regarding potential future programming in these areas.

Currently the Bureau for Latin America and the Caribbean (LAC) is in the process of discussing the study and drawing implication for our programs. As you certainly realize, the "un-earmarked" funds available for economic growth activities are low and are not likely to rise. So we do not have much leeway in thinking about new activities. Instead we plan to emphasis efforts that will facilitate broader economic growth and by so doing increase employment and diminish the need to migrate and subsequently send remittances back home. Key among these projects will be those that strengthen the financial system, facilitate the delivery of financial services to rural and isolated communities by private financial service providers, and enhance the effectiveness of investment in these communities. Thus, most of our work will focus on the economic and financial structure necessary for the markets to effectively deploy the remittance inflows and direct investment in local development to enhance education (including financial education), productivity, and opportunity in the countries of Latin America.

Building on USAID field experience with remittance and disapora activities, as well as the findings and recommendation emerging from the remittances and diaspora assessment that I have summarized above, USAID is pursuing discussions with partners in the development community. Through this dialogue, we hope to identify which potential USAID-supported interventions, in a tight budget environment, could advance our knowledge and understanding of how communities can benefit by deepening their access to competitive financial services. USAID has had significant experience working with small secondary financial institutions, such as

credit unions and micro-finance institutions, to strengthen their capacity to meet the financial needs of members of the rural and isolated communities.

Mr. Chairman, this concludes my statement. I will be pleased to respond to any questions that you or other Members of this Committee may have.

Thank you.

Mr. ENGEL. Thank you very much. Let me start with a round of questions that I have. The United States is supporting a variety of programs designed to help nations with microfinance, expanding financial service products and other means of helping people leverage their money. What programs and projects have been most successful in promoting best practices for the leveraging of remittances in your opinion?

Mr. BONICELLI. I think, in my opinion, having looked at this personally and certainly the opinion of the administration it is those programs such as the Mexico program I discussed—and there are several others in the region—that are focused not simply on reducing transaction costs because that is certainly important but it is the focus on banking the unbanked. It is the focus on teaching people what the banking system is like and how they can make the most of that money.

Much of the money does go for needs at the moment. There is no question about that but a lot of it—an increasing amount of it—is going for people to make personal investments, small business, homes or whatever, and the challenge we face is not so much giving them the idea about that it is having them live in an environment where that makes the most sense. It is still an environment where we work on macroeconomic growth the most.

Mr. ENGEL. It is my understanding that the Andean countries have advanced programs and remittances through their coordination with Spain. Transfers are mostly bank-to-bank and account-to-account with fewer transaction fees and better leveraging of the money. Can you describe this effort and what the United States is doing to create something similar, and if we are not doing anything in this regard, can you get in touch with your colleagues in Spain to learn about their efforts with an eye toward building a similar program? And also, what other countries are ahead on remittances and which are behind in helping people actually leverage those remittances?

Mr. BONICELLI. The Spanish program is a very interesting one indeed. It is one that we are looking at. My staff and I have been talking about it. My staff will be in touch with those who know that program best and get ideas from it. It is a part of this overall effort that we are beginning since this study has been produced as well as with the IDB.

Mr. ENGEL. Thank you. As I mentioned in my opening testimony and as you know, remittances sent from the United States to Latin America and Caribbean dwarf by far and will continue to dwarf foreign aid that we provide to Latin America and the Caribbean. Moving ahead, how will this impact USAID's strategy in the region?

And let me also talk about your written testimony. You said—and I quote you—"unearmarked funds available for economic growth activities are low and are not likely to rise so we do not have much leeway in thinking about new activities." So my answer as far as that goes is would you encourage President Bush to put

aside more money for remittance related activities in his fiscal year 2009 budget?

Mr. BONICELLI. For the fiscal year 2009 budget, which is fairly well-sealed through the F process, it is before OMB now, I and my staff is meeting this week with OMB on that, at the country level in the missions with the Ambassador and the mission director, there are opportunities to talk about ways to direct money toward specific programs in this area, and it is something that we would look at closely, particularly in those countries where helping people have more access to their banking system and their finance system would make sense to bank their money and invest it in their countries we certainly would be looking closely at that. More closely.

Mr. ENGEL. So you do believe that USAID can play an important role in bringing together the United States and Latin American banks and encouraging them, as I said in my opening remarks, to bank the unbanked I would assume?

Mr. BONICELLI. I do agree especially since we are looking as much as possible for public/private partnerships to find ways to work with the private sector that take our dollars much further.

Mr. ENGEL. How about USAID playing a role in helping United States and Latin American banks to create financial products that are useful to remittance recipients? Do you think there is a role for USAID in that?

Mr. BONICELLI. I do, especially in the area where banking in a lot of these countries needs to be changed so that it is consumer friendly, it educates consumers, it gives them other options, and helps them to see banking as not just something for the rich and the elite to do, but something that everybody can do, not just for the security of their money but to grow it and to make the most of it.

Mr. ENGEL. How about U.S. immigrants here as well? I assume by what you are saying you also believe there is a role for USAID in bringing U.S. immigrants to the financial mainstream?

Mr. BONICELLI. I think that in any way that we are talking about domestic policy or domestic matters, USAID would not have a role but when it touches their families back home, I assume there is a residual affect somehow on immigrants in the U.S.

Mr. ENGEL. Thank you. Mr. Sires.

Mr. SIRES. In your statement, can you just clarify for me what you said about El Salvador where I thought you said that the money that is sent to El Salvador people tend to take that money and not go to work. Did you say something along those lines?

Mr. BONICELLI. There are some studies that are showing that there are labor shortages in El Salvador in some pockets of the country, and some studies suggest that it could be because when remittances are high enough it is discouraging employment. Some people who look at it say it is the welfare curse but I would not argue that it is conclusive. I would say that is what studies are pointing to.

Mr. SIRES. The experience that I have is that the remittance that these people get, they barely are able to buy with.

Mr. BONICELLI. One of the reasons that the studies conclude that is there are Nicaraguans who are working in parts of El Salvador,

and the assumption is they have come there because there is a labor shortage.

Mr. SIRES. Yes. But whoever came up with that assumption I have to tell you, you have to restudy the whole thing because the amount of money that these people are able to send to their families, first of all they do not make a lot of money in this country, and it is a sacrifice for these families to send money back home. So whoever came up with that deduction, I wish I knew who it was so I could send them a letter because it is one of the dumbest deductions I ever come across.

Mr. BONICELLI. I will be happy to look more closely and get you the information.

Mr. SIRES. And the other, people always worry about money laundering. Do you see any evidence? I mean, is it prevalent? Is this something? Because you know people here who do not believe in remittance say that this could be used for money laundering. Do you have any evidence that there is a lot of that going on or do you hear of any of it? I mean, I do not expect you to know but——

Mr. BONICELLI. I have not personally seen it. I believe my colleagues in the Treasury Department are aware of that more than we would be but I have not seen that personally, and I would assume that it is a small amount if it exists because as you said, most of our experience with people receiving remittances is exactly as you described.

Mr. SIRES. It is a small amount of money.

Mr. BONICELLI. Not only a small amount of money but it is going to people who have pressing needs for it, and it is not terribly a loose system but I do not want to speak for the Treasury Department.

Mr. SIRES. Okay. Do you believe that this is creating a group of people depending on the American economy or do you believe that this is something that is going to help these families get ahead, this money that comes?

Mr. BONICELLI. I would have to say I assume both things are happening. These families left behind are simply dependent, especially if they happen to be the ones who cannot go and work and cannot get a job where they are. There is no question of the fact of them being dependent. I do not think it is what they desire nor is it what their relatives in the United States desire or wherever the stronger economy is they have gone to.

That is why our program overall seeks to strengthen the economies of these countries so that remittances are not even a factor or if they are, they are adding to the investment of people who are—if I could put it as—sophisticated investors in whatever they can invest in, in their home economies.

Mr. SIRES. Thank you very much.

Mr. BONICELLI. Yes, sir.

Mr. ENGEL. Mr. Faleomavaega.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman. I note, Mr. Bonicelli, that there was a study made in 2003 suggesting that sending remittances has also caused a dependency on the whole idea of economic development, and I think in line with what Mr. Sires has said earlier expressing that concern, is this really a detriment to the economies of these countries? I know that when you

do budget planning and for whatever economic standing that these countries plan for, they do not count remittances as part of it, do they? I do not think so.

Mr. BONICELLI. The countries do not count remittances as part of their budget?

Mr. FALEOMAVAEGA. Yes.

Mr. BONICELLI. No, I do not think they would officially count them. I think they are very aware of the amounts as best they can be in knowing what difference it makes in certain communities. They can count schools and churches and things that get built because of these monies and the associations that develop around them but I do not think that they are officially trying to count them as what they are depending upon as another form of foreign aid.

Mr. FALEOMAVAEGA. But it does bear very strongly on their exchange rates?

Mr. BONICELLI. Yes.

Mr. FALEOMAVAEGA. And so that is probably the best way that they know that these remittances do have a very positive effect on their exchange rates?

Mr. BONICELLI. Right.

Mr. FALEOMAVAEGA. What percentage of remittances come out of illegal immigrants in the situation in the Western Hemisphere in Central and South America? Do you have some figures on that?

Mr. BONICELLI. A figure that shows the amount of remittances?

Mr. FALEOMAVAEGA. Of the $62.3 billion of remittances, what percentage of that comes out of the pockets of let us say the illegal immigrants who do work here in the country?

Mr. BONICELLI. I do not think we have that. I do not mean to push it off on the Treasury who is not here but they might have that figure. I do not think we do. We could talk with them.

Mr. FALEOMAVAEGA. I was just curious. Maybe USAID might have an understanding of that. Do the IMF and the World Bank have any role to play in some way of noting at least on a more positive note that these remittances do bear very good results in terms of helping the families, poor families especially, in these countries?

Mr. BONICELLI. Especially in terms of studies they have provided lots of information that has been very useful to us, and I assume will continue to do so because they know that it is a major driver in several economies, especially the smaller economies.

Mr. FALEOMAVAEGA. I do not know if you have this information. I was just curious what is the total foreign assistance that we provided last year to Mexico, Central and South America? Do you have any figures on that?

Mr. BONICELLI. Figures on——

Mr. FALEOMAVAEGA. Our total foreign assistance program to the Western Hemisphere. Do you have anything on that? I am just curious.

Mr. BONICELLI. Total? One point two for Mexico and Central America, but that would include some of the Andes I think. That would include the Andes. I do not have that separated out.

Mr. FALEOMAVAEGA. So in effect there is quite a gap here as far as the——

Mr. BONICELLI. 50-to-1.

Mr. FALEOMAVAEGA. 50-to-1. I consider it a very positive thing because it does help poor families. Now you might question the legality when you talk about the illegal immigration. This has always been a sore point when we discuss the positive effects of remittances, and then you say well, they are doing it illegally or unlawfully. Is that a positive way of saying this? I kind of like to include this as part of our foreign assistance.

Mr. BONICELLI. Well, Congressman, I get to avoid the legal and illegal immigration issue I guess at USAID and just focus on the fact that for us the positive is of course it is alleviating a lot of suffering that families endure. The negative for us as development experts who are trying to see the big picture and the long-term picture is it is only temporary. It is not the way for people to fix their poverty problems, get themselves educated, and invest in their futures, and so we want our programs to be as much as possible directed at growing their economies so that remittances become irrelevant.

Mr. FALEOMAVAEGA. But would you say that without the remittances these countries would be worse off?

Mr. BONICELLI. I believe individual families definitely would. I am sure the effect on the overall economies would be bad but it would definitely affect the families the worst.

Mr. FALEOMAVAEGA. So in a way this is a very positive cushion then to give assistance to these families. Without even begging for anything they are getting it because this is the same difference as father goes to work except he has to go to America to find employment.

Mr. BONICELLI. A temporary measure.

Mr. FALEOMAVAEGA. So I do not consider this as a welfare state. The only difference is there are no opportunities. This is the reason why thousands of people come to this country to find employment, gainful employment.

Mr. BONICELLI. I would agree, Congressman, and temporarily it is an ideal way as opposed to more foreign assistance, because it is family-to-family, person-to-person. Those individuals are in control of their money. They decide what to do with it, and that is something that I would applaud but these other effects that we have talked about, the weakened families, the loss of leadership in communities because to have that resource they have to be apart from them, and that is something we would like to see eliminated by growing economies so that their relatives say, why should I send you money? You live in a good economy, and you are making as much as I do. That would be the ideal.

Mr. FALEOMAVAEGA. But when you say temporarily, Mr. Bonicelli, I said this has been going on for 30, 40 years. It is a pretty good temporary way of giving assistance to these poor families.

Mr. BONICELLI. I am told the history of it from those economists who look at it historically though they look at for example the Irish situation and it did not solve the Irish problem. It was when they opened their economy, when they completely got rid of the hindrance on business and investment and grew that that is what made the difference, and as an academic I read those books late at night and I am entertained but I imagine there are more studies.

Mr. FALEOMAVAEGA. I can think of so many different examples of how families who immigrated to this country have been able to help their families back home, and then a way of bringing them back here, and they become good citizens, contributors to the community in a very positive way. I just want to share that with you. Thank you, Mr. Chairman. Thank you, Mr. Bonicelli.

Mr. BONICELLI. Thank you.

Mr. ENGEL. Thank you. I know Mr. Sires had a follow up question.

Mr. SIRES. Thank you, Mr. Chairman. I meant to ask this before. What is the average size of a transaction to Central America? In other words, is it $100 a check or is it $200?

Mr. BONICELLI. I believe it is $300. I think it is $300. I know it depends on the country.

Mr. SIRES. Is that yearly or months or what?

Mr. BONICELLI. Monthly is my understanding upon average. The average person working in the United States sending a remittance is ending about 20 percent of his income back, and so——

Mr. SIRES. On a monthly basis?

Mr. BONICELLI. On a monthly basis.

Mr. SIRES. Does it differ to, well, I say the Caribbean? Is it a little higher in the Caribbean or a little less?

Mr. BONICELLI. The World Bank study shows a huge divergence across the money as high as $250, $300, $600 down as low as $90. It depends.

Mr. SIRES. Who gets $600?

Mr. BONICELLI. And that is the entire region there. Jamaica.

Mr. SIRES. Jamaica gets $600 a month from families that work here?

Mr. BONICELLI. It looks like that is an aberration for Jamaica because the Central Americas like El Salvador is $400.

Mr. SIRES. And who gets $90?

Mr. BONICELLI. Paraguay. About four of them are in the $90s. Panama is in the $60s.

Mr. SIRES. Okay. Thank you.

Mr. BONICELLI. That is the World Bank study.

Mr. ENGEL. Let me just ask you a couple of more questions regarding your written testimony. You said—and I quote you—"we need to remind ourselves that the most important challenge is to strengthen the economies of the region through expanding trade, opportunities and promoting private sector led economic growth. This will enable the poor of the region to find employment in their own communities and countries and not have to migrate to the U.S. in order to provide for their families." That is a quote.

I happen to agree with that quote but if our number one goal is to have Latin Americans not migrate to the United States, should USAID not focus any efforts on leveraging remittances for development? Would that not also help in keeping people in their home countries?

Mr. BONICELLI. I think so if the programs that we can design are the ones that we describe and can be expanded on that are not just—because USAID does not have the goal of keeping people in their countries. It has the goal of overall development. So if they are fitted into that structure and that strategy, absolutely.

Mr. ENGEL. Do you think we have enough resources to do what needs to be done in that regard?

Mr. BONICELLI. I think in general we are constrained, given foreign policy as it is today in the places that we are in the world. I think that I would be very concerned looking at country-by-country in my budget if I were to dedicate too many things that were focused on remittances and away from things like trade capacity development, things that support CAFTA, DR and other trade agreements. I would look at them country-by-country and try to figure out which place has shown the most promise that that particular remittance program can make the most but I would not want to generalize it because I think that again the overall goal has got to be to grow the regional economy because that helps all the countries.

Mr. ENGEL. I just think remittances have sort of been pushed to the background, and we could utilize these remittances to do a lot of the things that we would like to see happen.

Mr. BONICELLI. Yes, Mr. Chairman. I think after this study and with this focus we will find ways to put more emphasis on it.

Mr. ENGEL. You also note in your written testimony that USAID has supported the Treasury Department in the U.S. Government's Summit of the Americas, their commitment to help lower transaction costs. Can you tell me specifically what you have done and how you have done this?

Mr. BONICELLI. Some of these programs that I describe and in that list at the end of the written testimony is our programs in support of Treasury's lead on that. They have set the overall tone for the bank-to-bank and that kind of thing.

Mr. ENGEL. Okay. Let me ask you a final question about the Millennium Challenge Corporation. Some critics have argued that the Millennium Challenge Corporation's compacts with Nicaragua, El Salvador and Honduras, have not done enough to leverage remittances for development. Do you agree, and do the Millennium Challenge Corporation and USAID coordinate their work on remittances in the region?

Mr. BONICELLI. Mr. Chairman, I am going to have to plead ignorance on that, and I will get back to you and talk with them and see where it is that we can have an opinion about that. I am sure that we have staff that do.

Mr. ENGEL. Okay. I would appreciate it if you can get back to me on it. All right. Unless there are any other——

Mr. FALEOMAVAEGA. Mr. Chairman?

Mr. ENGEL. Yes, Mr. Faleomavaega.

Mr. FALEOMAVAEGA. Mr. Chairman, I do have one question if I could ask one.

Mr. ENGEL. Certainly, sir.

Mr. FALEOMAVAEGA. You know one of the shining examples of how much we have said so much about the positive affects that NAFTA was supposed to provide that as a result of implementing the NAFTA treaty that no more illegal immigrants would come from Mexico but would stay in Mexico because the economy, the free market system, globalization, free trade and all of this. Well, it has not happened.

And I was just curious what do you think are the factors that caused these immigrants or these migrant workers to continue coming to the U.S. and not stay? For obvious reasons the Mexican economy is just not positive enough to say that it provides employment and jobs for these people rather than coming to the United States. What is your view on this?

Mr. BONICELLI. Mr. Congressman, I think that free trade agreements are one very important step of solving the problem of immigration because of a lack of economic opportunity at home. If I can get away with it, lapse back into the classroom and not be the AA for a moment and just say that I do not think that all the other steps have taken place across the region yet. I think that free market economics has been embraced in rhetoric but not completely in all the steps everywhere, and that is one of the reasons I have enjoyed my 2 years at USAID so far is continuing to work on those programs.

I thought the rhetoric at the outset of NAFTA, both in the Bush and the Clinton administrations, was a bit overblown about solving all the problems. It was a very important first step but I think more has to be done for it to be as effective as it can.

Mr. FALEOMAVAEGA. Free market economy, assuming that also there is political stability in these countries.

Mr. BONICELLI. Absolutely.

Mr. FALEOMAVAEGA. And that has not happened.

Mr. BONICELLI. Absolutely.

Mr. FALEOMAVAEGA. We can talk about Venezuela. We can talk about the fact that these countries and their economies just are not up to it. I think the beneficiaries to the NAFTA thing has been Canada and the United States have done very well, but when it comes to Mexico, it has not given. The problem here even in our own country some states have benefited from NAFTA, others suffered, and I suspect in Mexico it is probably the same situation also for them.

Mr. BONICELLI. It is.

Mr. FALEOMAVAEGA. So when you say temporary stability of providing assistance to these families, the problem here is that you cannot put it in something that is not there all together. You have to take all factors into consideration but I still insist and think that the remittances have been a positive thing. The fact that it goes directly to the families, the governments are not involved, and I really think that while we look at the illegal immigration issue on the one hand but in the other hand it has given tremendous assistance to these families, especially the poor families. Thank you, Mr. Chairman.

Mr. ENGEL. Thank you, Mr. Faleomavaega. And Dr. Bonicelli, I want to thank you very much for your testimony, and we will obviously be in touch with some of those questions that you are going to flush out for us, and we appreciate you coming here this afternoon.

Mr. BONICELLI. Thank you, Mr. Chairman.

Mr. ENGEL. Thank you. I am now pleased to call on our second panel. Again, Manuel Orozco, senior associate at the Inter-American Dialogue, and as I mentioned before is an authority on global remittances. Ernesto Armenteros is the chief executive officer of

Grupo Quisqueyana, a money transfer organization in New York, and Kai Schmitz is executive VP and COO of Microfinance International Corporation.

So gentlemen, welcome, and let me ask you to please keep your opening statements to 5 minutes or less. We will put your entire opening statement in the official record, and if you could summarize them in 5 minutes or less it would be most appreciated. We have just gone back into session, and we think that there will be votes in the not too distance future. So hopefully we can move this along so that the votes do not interrupt the panel. Dr. Orozco.

STATEMENT OF MANUEL OROZCO, PH.D., SENIOR ASSOCIATE, REMITTANCES AND DEVELOPMENT PROGRAM, INTER-AMERICAN DIALOGUE

Mr. OROZCO. Good afternoon, Mr. Chairman and members of the committee. Thank you very much for asking me to talk to you and testify about this important issue. I think the critical point here is to highlight the fact that families are the main protagonist of this issue of remitting which after all what an immigrant is doing is fulfilling a family obligation about taking care of their families which then is nothing different from anybody else.

The main difference is that they are doing it across borders but we are faced with a paradox of sorts when we are talking about remittances is that in addition to taking care of their families and basically the average amount that people are sending is to take care of the basic cost of living in their home country. That is why you see differences. Mexicans send $500, $400 a month whereas a Nicaraguan would be sending $200 because the cost of living varies along those differences.

But in addition to that, one of the interesting paradox of this is that migrants who are having financial access in the United States are more likely to send more money back home and to invest back home. Also migrants who have been naturalized are also more likely to send more money and invest back home as well as in the United States.

Unfortunately, the majority of migrants are still financially disenfranchised in the United States. When you look at the families on the receiving side, you also see a reality that is also paradoxical.

The majority of recipients of remittances are saving money, are seeking to have bank accounts just on the supply side of financial mediation. There are relatively opportunities provided by banks to have access to financial institutions to open a savings account for example.

Just to give you an idea most immigrants in the United States cannot open a bank account in their home countries. They are not allowed to. There is no basically an opportunity to open a bank account, and their families living there also have difficulties in doing so. So there is a paradox here. There is a demand for financial services, and yet people are not being able to meet that demand because the supply side does not provide it.

But there are some exceptions that are very important to point out. Different financial institutions in several countries have seized on the opportunity, and one of the cases, for example, is an El Sal-

vadoran Bank that decides to provide financial services, first providing financial literacy to the consumers.

The end result is that now 60 percent of the transfer that are performed to this bank from the United States to El Salvador are account-to-account transfers, and they have increased their access to not only to provide savings accounts but also to offer credits and loans to these families.

Another case which is an interesting successful case resulting from USAID intervention and this is Jamaican National Building Society, and this is an interesting example where USAID funded an initiative in Jamaica through this financial institution to offer card based transfers to offer debit cards to the recipient.

Nowadays as a result of that initiative, 40 percent of remittance recipients withdrawing their money at Jamaica National Building Society use the debit card. The impact of the debit card is the increased opportunity to save but also reduces the cash on the street, and that is an important economic effect in the country, especially small country like Jamaica.

And then when we look at the broader picture within this framework there are a number of developments that are taking place that highlight the importance and the urgency to act to leverage these flows.

One of them is there is a slowing down of the gross of remittances, and the attribution to that is due to different reasons. One is the housing market. Twenty percent of the Mexican labor force works in construction, and there is a 10 percent unemployment rate.

So at least 50,000 people of Mexican origin are probably not sending money or sending less because of they have to cope with the unemployment condition but you also have a reality is that the central banks of the countries have also improved their capacity to measure the money, and so in doing that, it is not that you see a slowdown but you see better accounting but there is also the fear of the immigration debate going on that has made immigrants to be more wary about being in public and sending money to different places.

And to that you add the increased rate of deportation that has occurred this year, that has almost doubled the amount of people from last year. At the same time, there are other interesting developments going on that have to do with increased competition in the remittance market. Banks have penetrated into the remittance transfer process, and that has improved opportunities to have bank accounts here and bank accounts in their home country.

All of these developments offer at least four different opportunities for migrants and their families to have financial access. One is on the possibility of United States corporation is to provide financial literacy in the home countries and here more migrants. FIDC, for example, has interesting programs to increase financial access to their own bank whether they are migrants or not.

In Latin America there is still a lack of financial literacy programs. The central banks do not have even toolkits on financial literacy. Another one is to strengthen financial access through microfinance institutions.

Remittances go to many rural areas where there are no banks present. Just to give you an idea, in Mexico banks do not go to 30 percent of the Mexican population which is where rural areas are. There is basically no financial institutions in populations under 20,000 people. Thirty percent of Mexico has communities under 20,000 population.

And then there are other issues that one can address. One of them I think it has to do with expanding technology use, especially point of sale terminals for example to bankerize merchants who deal with the remittance recipients. Those are some opportunities that USAID, the Millennium Challenge Corporation can take on in particular, and thank you very much for allowing me to speak.

[The prepared statement of Mr. Orozco follows:]

PREPARED STATEMENT OF MANUEL OROZCO, PH.D., SENIOR ASSOCIATE, REMITTANCES AND DEVELOPMENT PROGRAM, INTER-AMERICAN DIALOGUE

Dear members of Congress, Remittance transfers are one of the manifestations of contemporary transnational family ties and foreign labor mobility. Beyond the large volumes that are sustaining millions of families, these flows contribute to increase savings among recipient households, and in turn strengthen financial institutions and a country's economy. With appropriate policy tools the impact of these flows will have potential development implications in the countries where these flows are arriving and can help mitigate any new challenges. I will point out to four issues: the problems of remitting despite a demand for financial services, lessons learned when financial intermediation exists, current dynamics in the remittance environment and practical recommendations for U.S. cooperation.

I) REMITTANCE TRANSFERS AND LACK OF FINANCIAL ACCESS: AN URGENT CHALLENGE

Migrants and their family are the main protagonists of international money transfers. Migrants are predominantly low income and financially disenfranchised with little access to the banking system. However, in order to fulfill their family obligations, they remit relatively fixed amounts of money [Exhibit 1] that reflect their home country's cost of living, which varies across Latin America and the Caribbean, and often represent 20 percent or more of their income earned in the United States.

Furthermore, the obligation to remit benefits everyone if migrants both have access to banking financial institutions (in the United States and their home country), and when they improve their legal status: Most migrants owning bank accounts send higher amounts, and invest in businesses back home. Moreover, most naturalized citizens who remit send more money back home. However, banking access is still very low among migrants in the U.S. [Exhibit 2]

Although the earnings received allow them to stay out of poverty and contribute significantly to build assets, as with migrants, receiving families are also financially out of the mainstream. Yet, the more transfers they collect, the higher the number of families with income that they can consider saving. They are more likely to take on bank accounts as well as other financial obligations. Financial access is incipient if not low. Although the percent of recipients with bank accounts is higher than among non recipients, the number of people with bank accounts is low, below 30%. Moreover, despite that banks pay most transfers of remittances there is poor financial intermediation among these institutions [Exhibit 3; [Exhibit 4].

II) WHEN THE SUPPLY MEETS THE DEMAND: LEVERAGING REMITTANCES TO PROMOTE FINANCIAL ACCESS

There are exceptions however showing that when the supply of financial services caters to the demand of remittance recipients, financial access increases and the local economy benefits. For example, in rural areas in Mexico with high migration where banking institutions are not available, rural banks have stepped up to offer financial services, including remittance transfers. An association of rural banks, AMMUCS, for example, has increased its remittance services to this rural population, but people are also putting their money into savings: in the State of Puebla about 14% of remittances are saved in the Microbanco Pahuatlán. These savings contribute to a sustainable financial basis that the bank uses to finance productive activities. In turn, these activities generate income, jobs and some development.

Another case of providing financial services to recipients is the Mexican quasi-government agency BANSEFI which established a network, L@ Red de la Gente, of some 1200 banks, micro-finance institutions and credit unions. The goal is to serve as distribution centers for remittances. By September 2007, BANSEFI had increased its payments to 120,000 transfers and was opening accounts for about one quarter of its recipients [Exhibit 5].

An important example in financial intermediation is the experience of the Jamaica National Building Society (JNBS). Through its subsidiary, JN Money Services Ltd., JNBS serves Jamaicans living in the diaspora. By facilitating remittance services in Canada, the USA and the UK. In partnership and cooperation with USAID, JNBS chose to automate the process of sending and receiving money transfers through swipe card technology. It now has over 70,000 cards users. Moreover, fifty percent of remittance recipients in Jamaica have been brought into the formal banking system, with 40% of those receiving their remittances through a card product. The card product can also be used to make purchases at small businesses that accept debit cards. Savings rates have increased considerably through direct deposits to savings accounts. The amount of cash in circulation has gone down and the corollary use of electronic transactions is up.

In El Salvador some banks have also played a pivotal role. Banco Salvadoreño, the second largest commercial bank in El Salvador (with a migrant population in the United States in similar proportions to Moldova's migrants abroad), is an important example of the link between alliances with money transfer companies and banks and financial intermediation in El Salvador. Banco Salvadoreño has a presence in most U.S. states through its MTO, BancoSal, and strategic alliances with some of the biggest MTOs, including Western Union and Bancomer Transfer Services. In 2005, Banco Salvadoreño made over one million remittance payments, totaling $256 million. Ninety million were transfers from its own BancoSal, and 63 percent of BancoSal transfers were deposited directly into the accounts of at least 13,000 remittance recipients at Banco Salvadoreño. Banco Salvadoreño offers remittance recipients the opportunity to borrow up to 80 percent of their last six months' remittance flows. The bank has also opened more than 29,000 savings accounts for recipients and distributed nearly 9, 000 "Salvadoreño Emprendedor debit cards to small business owners and more than $10 million in loans to Salvadorans living abroad. In addition, Banco Salvadoreño is the only bank in El Salvador that has an Internet-based remittance service that enables clients to use the bank's website to send money from any account in the United States. The bank also offers a personalized service to its customers through a welcoming staff (Señoras de Bienvenida) who provide financial education on the spot to the families retrieving their remittance and encourage them to open bank accounts. Banco Salvadoreño is an example of a successful endeavor in banking remittance recipient families while offering a range of financial services.

III) THE CURRENT ENVIRONMENT: CHANGING DYNAMICS AMIDST THE CHALLENGE OF IMMIGRATION REFORM

Amidst these trends, this year finds the remittance market faced with continued and additional challenges. The flow of remittances continues to increase and will likely reach 70 billion in 2007. Moreover, current trends in money transfers are shaping a process that signal different dynamics, some of which are interrelated. For example, growth of remittances to Mexico and some Central American countries has slowed, competition has increased through deepening and expanding of new businesses. Some of those trends are new while others are an intensification of previous developments. They are discussed here.

i) A Remittance slow down?

Year to year quarterly growth has slowed since mid 2006 and raised questions as to its causes [Exhibit 6, 7 & 8]. Many have argued that growth is associated to the crisis in the construction industry. However, there are other trends that bear attention, including the consequences of improved reporting.

The amounts reported today reflect an improvement in the accounting and reporting of money transfers by Money Transfer Operators (MTOs). Over the past five years, money transfer companies have increasingly reported their transactions to the Central Bank of Mexico, thus improving the recording of these flows and better reflecting actual migrant transfers.

In the late nineties and early 2000, competition grew as many companies began participating in the formal transfer process while at the same time financial institutions in Mexico entered into the business of paying transfers. One important example is the arrival of Bancomer Transfer Services, a company owned by BBVA-Bancomer, as a payment and processing platform. Since then, the company has been

attracting and processing transfers from many MTOs and reporting its volumes to the Central Bank. Since 2000, their transactions have grown from fractions of percentages to over 40 percent of total volumes entering Mexico due to their introduction into the formal system.

For example, in early 2000 the Central Bank reported two million transfers. These figures were an underestimation and unrealistic because US Census data indicated that there were over ten million Mexican migrants in the country and survey data at the time showed that 70 percent of adult migrants were remitting, that is nearly six million people remitting. A similar example reflects the methodological improvements by the Central Bank of Guatemala, which reflects improved reporting in 2001, date at which flows grew from 540 million to 1.5 billion.

Today Mexico's Central Bank statistics are reflecting seventy percent of the Mexican foreign labor force that sends money to their country, which amounts to nearly seven million people. Thus, the lower growth is associated in part to a statistical improvement in the amounts transferred. Furthermore, Central Bank data from other main recipient countries in the region indicate that the flows (including growth) continue to move in an upward trend.

Personal decisions and the immigration debate

The decline in quarterly growth also takes place during the U.S. immigration debate, increased immigration raids deporting undocumented migrants, predominantly, though not exclusively, Mexicans, and some state anti-immigration policies. Western Union, in fact, attributed the decline in their number of transactions to these concurrent events. Indeed, deportations have dramatically increased in the past three years—doubling every year since 2004. Although in the short term the size of deportations, albeit the highest for the past ten years, do not have a strong effect in lowering the total amounts sent, they create fear and intimidation among migrants [Exhibit 9].

A recent survey commissioned by the Multilateral Investment Fund of the Inter-American Development Bank shows that nearly 40 percent of migrants said they were sending less or much less money as opposed to 20 percent who indicated sending more or a bit more. In balance, 18% of all respondents were sending less money, the majority (56%) of which was Mexicans migrants. Although it is uncertain by how much the decline amounts to, the difference between those sending less over those sending more (below US$350) was one tenth of one percent or about 6,000 people [Exhibit 10] [Exhibit 11].

Moreover, 55 percent of respondents agreed that the anti-immigration sentiment was making it more difficult for them to send more money back home. This is further notable considering the deportation statistics shown above, which give a sense of uncertainty and unease about the future [Exhibit 9].

A closer look at the data investigating what factors determined the sending of money indicates that earnings and the anti-immigration sentiment were strong statistically significant indicators of sending. A regression model was run using "sending more money" as a dependent variable with independent variables such as amount of hours worked, increased earnings, age, anti-immigration debate, and lack of jobs. The results show two statistically significant variables: the anti-immigration debate and increased earnings. The anti-immigration debate variable is statistically significant and negative, meaning that the greater the intensity of the debate the less money people were sending. Similarly, those earning more, were more likely to send more. This latter issue has proven to be a strong indicator of remitting, but the other variable ("anti-immigration debate") is a new factor [Exhibit 12].

Does the construction slowdown lead to a remittance slowdown?

Some news reports have argued that the decline in remittance growth is associated with an increase in unemployment among Latinos, particularly in the construction industry affected by the decline in real state prices. The argument is made on the consideration that one-fifth of Mexican workers are in the construction industry. Although there is no linear or statistically significant relationship suggesting that unemployment has led to a drop in remittances, the unemployment figures for last two quarters of 2006 and first two of 2007 do correlate negatively with the slow with growth [Exhibit 13].

Although most workers in construction are relatively mobile and seek to employ themselves in other sectors, over twenty percent of migrants who said were sending less, were also earning less money (22%) or working less hours (29%). This may indicate that migrants may be sending less frequently while meeting their family obligation of taking care of the household.

ii. Competition in the money transfer business

Another continued trend is competition. A transformation in the US-LAC corridors is taking place whereby consolidation of firms has taking place. While pricing continues to decline, larger money transfer companies are losing market share to mid-size and emerging MTOs which started operating in the early 2000, and, on the demand side, migrants are turning to alternative methods of transfers.

In the first case at least eight companies have been acquired by outsider and insiders to the industry, including payment processing companies, banks or money transfer operators. These acquisitions have provided some clues as to the direction of where payments for migrant transfers may be heading in terms of market competition and product innovation.

For example, the list below shows the companies acquired, the acquirer and date of acquisition:

- Dolex (Global Payments) (2004);
- Ria (Euronet) (2007)
- Quisqueyana (Consorcio Mexicano) (2006)
- Vigo (Western Union) (2007)
- Uno (Omnex) (2005)
- Uniteller (BanNorte) (2007)
- GroupExpress (Coinstar) (2007)
- Multiservicios (Citibank) (2007)

Parallel to this trend two other dynamics refer to continued drops in pricing and the positioning of smaller companies and banking financial institutions. Many companies that have been operating for less than ten years have experienced important growth, while larger processors have lost market share.

These smaller companies have grown since around 2005, increasing from less than 20,000 to nearly 200,000 monthly transactions. Consumer behavior has shifted from widely known Western Union, Sigue, MoneyGram or Dolex locations to newly recognized MTOs such as Viamericas, Reymesa or Alante Financial. These new companies' name branding is settling as part of the industry's consolidation as a legitimate money transfer provider.

More importantly, money transfer methods have slowly been shifting and diversifying beyond cash to cash transfers. A 2006 study of remittance senders in New York, New Jersey, Chicago, Miami, Washington, DC and Los Angeles showed that nearly three percent of transfers were handled by banks such as Wells Fargo, credit unions and Bank of America. This small share is related to their recent entrance into the market and the limited number of participating institutions. However, since 2000 at most one hundred financial banking and depository institutions have sought to attract remitters into the banking system by offering remittances transfer services and simultaneously provide typical financial services. Moreover, the survey showed that six percent of migrants have been using card based transfers. Nearly two percent of which are Mexican migrants using these alternative payment instruments.

A recent survey conducted in July 2007 showed that 7% of migrants were using U.S. banks to send money and another 5 percent were using debit cards or the internet. This trend signals a shift in the money transfer market that usually showed that more than 90% of consumers were using money transfer operators [Exhibit 14] .

Meanwhile pricing still matters both for suppliers and consumers. Transaction costs have continued a downward trend pushing some companies to look for value added services, expand to other corridors outside of Latin America or find other business opportunities [Exhibit 15] [Exhibit 16]. On the demand side consumers are manifesting a preference to shift from current cash to cash transfers and seek to adopt other methods, such as account to account transfers, card based transfers or mobile transfers. Such preferences are also associated to the costs of the current transfer method, that is, those preferring to switch to a different method are paying more than those who don't want to change methods [Exhibit 17].

Related to these changes is remittance recording matters: not always these new methods are recorded in the Central Bank's balance of payments due to their methodology in recording transfers. This is particularly true of account to account transfers, whether they are performed via SWIFT, debit cards, online or with stored value cards. Therefore, some percent increase in transfers via account to account may not be recorded by the Central Bank, which only keeps data from wires via MTOs, checks, money orders, or the post office, and in turn may report a lower volume of transfers.

IV) THE ROLE OF U.S. COOPERATION TO LEVERAGE REMITTANCES

These experiences are suggesting an emerging trend among financial institutions to link up with recipients through the supply of financial services that in return can create growth. Opportunities for U.S. collaboration to facilitate strategies for financial intermediation can further accelerate development and leverage these flows promoting tools for self-sustainability that can improve wealth or protect families during times of adversity. Here we mention a few opportunities where institutions like USAID, the Millennium Challenge Corporation, the Inter-American Foundation, and the Overseas Private Investment Corporation could insert as development enablers through remittances.

i) Enabling technologies

New technologies can allow for cheaper account-to-account transactions. To do so, much is required. All market players must learn how to best use technologies. In terms of recipients, more financial education is needed alongside a change in understanding how money can be collected.

MTOs and banks should be encouraged to put technological devices for money transfers to practice. But technology solutions can be pricy. Incentives need to be clear, whether from the business case or coming from policy in the form of tax breaks for example. Consider point of sale (POS) devices. POS devices are an opportunity to enhance the effects of remittance by enabling electronic payments and lowering the hurdle when it comes to pulling revenue into the mainstream—into banks and MFIs. Cash that's in the bank is a form of savings and the trade-off to cash in pocket for pure consumption.

ii) Linking up

Financial institutions like micro-finance institutions (MFIs), credit unions and small banks have demonstrated a key role in banking the traditionally unbanked. This also means in transforming remittance clients into clients of financial services. Governments and donor countries have not been sufficiently supportive of MFIs, despite the latter's welcome efforts to reach out to remittance recipients.

Such links like that between a bank in an originating country and a microfinance institution at the destination have proven to be winning combinations. For example, a Spanish savings bank—Caxia Catalunya—established agreements with other banks and saving banks in Latin America. Some U.S. financial banking and nonbanking institutions are starting to replicate these activities.

Another linking effort needs to target larger banks that offer remittance services. Access to additional banking services remains low despite the very high percentage of payments made by banks. The disconnect is made more stark when one considers that remittance transfer earnings represent 20% or more of their total net income. Throughout Latin America and the Caribbean, banks make nearly 50% of all remittance payments. Because of banks' roles in distributing remittances, it is particularly important that they move beyond simple remittance payments. They must offer financial literacy programs aimed at remittance recipients and opportunities to invest in assets and businesses.

iii) Financial literacy

A country's central bank often lacks the resources and capacity to provide basic financial literacy to their populations. Educating people about the role of finances is a critical step toward development. It is also becoming important among remittance recipients. Among the financially less literate, remitted money is more often spent on non-basic necessities. Training about the financial value of transfers as a mechanism to build credit and assets, for example, is indispensable.

iv) Making the most of remittances

If an economy is unable to produce in a competitive context, its labor force will be depressed and eventually a portion will migrate in order to take care of their families. The role of remittances in the lives of so many families is clearly dominant. But even once a member is away and sending money, the families may only be able to do so much with that money. It's up to the local economy to provide an effective supply of services and products.

The development challenge for business and policy practitioners worldwide is to catalyze the transformative role of remittances in a local economy. To pull the massive flows into the mainstream. Their work is to create appropriate conditions for a positive investment climate in their country of origin. Any effort to promote investment will not succeed if the business climate is not investor-friendly. All together, we are promoting development while at the same time, not telling migrants and their families what to do with their money. After all, while remittances are part

of the transnational lifestyle, they are still in the family and family matters are private.

[EXHIBIT PRESENTATIONS]

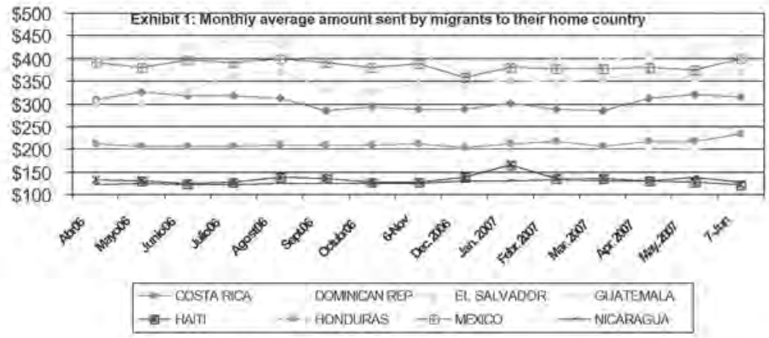
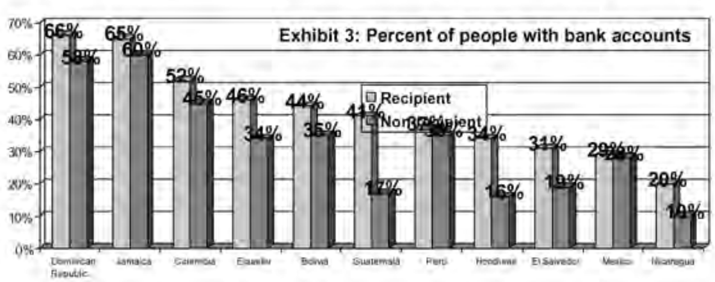


Exhibit 2: Remittances, banking and citizenship status

	Amount Sent ($)	(%) of all remitters
Owns checking account in home country	561	1
Has bank accounts in both countries	499	4
Has saving accounts in both countries	418	6
Owns a savings account in the home country	369	4
Remitter is naturalized U.S. citizen	342	19
Remits through banks	332	11
Owns checking account in the U.S.	267	30
Average remittance sent by all migrant remitters	265	
Owns savings account in the U.S.	254	31
Remits through money transfer companies	252	87

Source: Orozco, Manuel. Survey of Latinos remitting to Latin America, July 2007



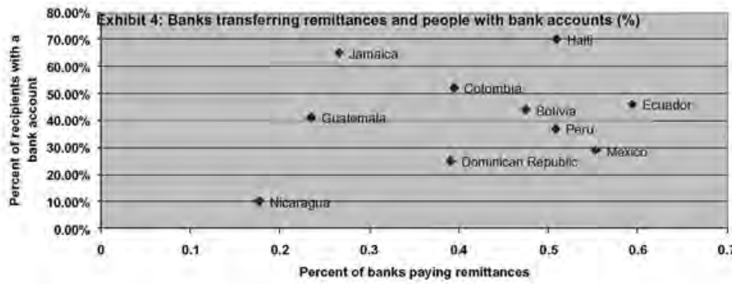


Exhibit 4: Banks transferring remittances and people with bank accounts (%)
Percent of recipients with a bank account
Percent of banks paying remittances
Haiti
Jamaica
Colombia
Bolivia
Ecuador
Guatemala
Peru
Mexico
Dominican Republic
Nicaragua
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
0
0.1
0.2
0.3
0.4
0.5
0.6
0.7

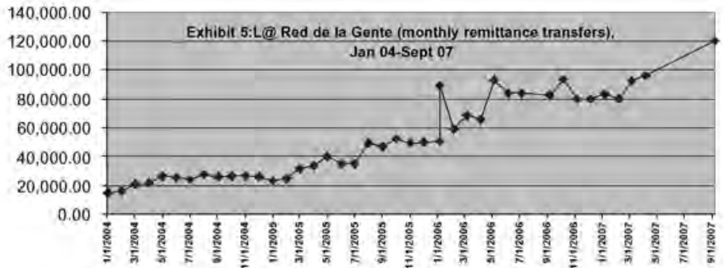


Exhibit 5:L@ Red de la Gente (monthly remittance transfers), Jan 04-Sept 07
140,000.00
120,000.00
100,000.00
80,000.00
60,000.00
40,000.00
20,000.00
0.00
1/1/2004
3/1/2004
5/1/2004
7/1/2004
9/1/2004
11/1/2004
1/1/2005
3/1/2005
5/1/2005
7/1/2005
9/1/2005
11/1/2005
1/1/2006
3/1/2006
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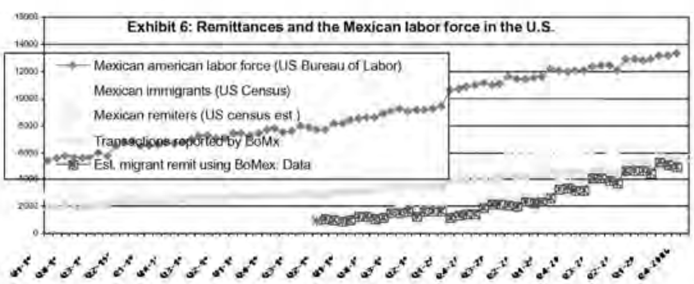
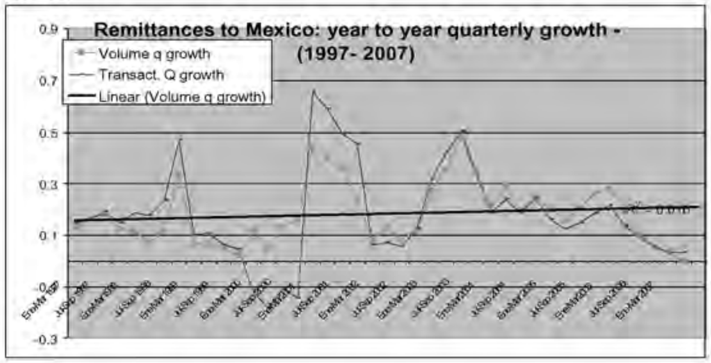


Exhibit 6: Remittances and the Mexican labor force in the U.S.
Mexican american labor force (US Bureau of Labor)
Mexican immigrants (US Census)
Mexican remiters (US census est.)
Transactions reported by BoMx
Est. migrant remit using BoMex. Data

Exhibit 7:



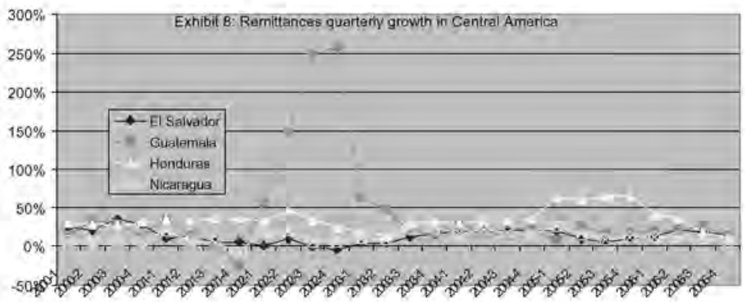


Exhibit 9: Deportations of Undocumented migrants in the U.S.

Countries	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 [Jan-Jul]
Honduras	5,145	3,400	4,688	4,461	4,843	7,884	8,198	14,556	26,526	15,145
Dominican R.	2,518	3,229	3,444	3,973	3,531	3,358	3,527	2,929	2,805	
El Salvador	5,348	4,048	4,617	3,808	3,902	5,108	6,405	7,235	10,312	10,954
Guatemala	5,152	3,429	4,222	4,343	4,919	6,848	8,308	12,529	18,386	11,458
Mexico	139,392	149,784	150,656	141,584	109,703	139,750	149,289	144,840	114,640	80,000
Nicaragua	411	406	459	500	445	656	793	1,022	2,241	1,800

Source: U.S. Immigration and Customs Enforcement

Exhibit 10: Migrants who say how much more or less they are remitting

	Percent
Much more money than last year	9
A little more money than last year	11
At about the same amount of money as last year	41
A little less money than last year	23
A lot less money than last year	15
Total	100.0

Exhibit 11: Migrants responding whether they are sending more or less remittances this year

	Mexico	Guatemal a	Honduras	El Salvador	All four countries
Less or much less money sent	22%	7%	3%	8%	39%
Much more, more or the same money sent	32%	11%	3%	15%	62%

Exhibit 12: Regression Results for sending more money

	B	S.E.	Wald	df	Sig.	Exp(B)
Length of time in the U.S.	-.174	.149	1.354	1	.245	.840
Employment position	.087	.203	.186	1	.667	1.091
Length of time at current job	-.040	.145	.074	1	.785	.961
Legal status	.196	.288	.466	1	.495	1.217
Gender	.088	.274	.104	1	.747	1.092
Lack of jobs	.357	.349	1.049	1	.306	1.430
Earning more than last year	***.730***	***.166***	***19.363***	***1***	***.000***	***2.075***
Anti-immigration debate makes it difficult to remit	***-.355***	***.256***	***1.918***	***1***	***.166***	***.701***
Age	.030	.146	.043	1	.836	1.031
Constant	-3.077	1.571	3.837	1	.050	.046

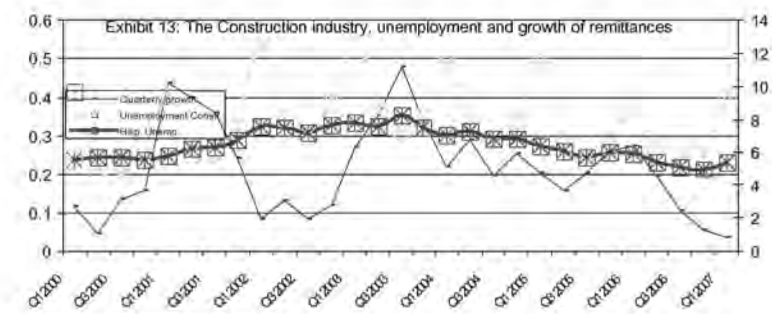


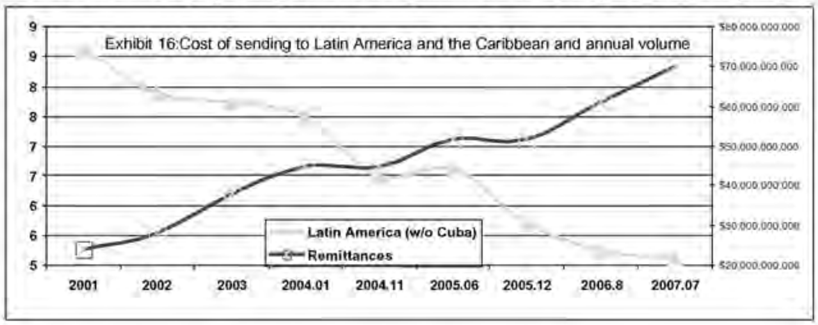
Exhibit 13: The Construction industry, unemployment and growth of remittances

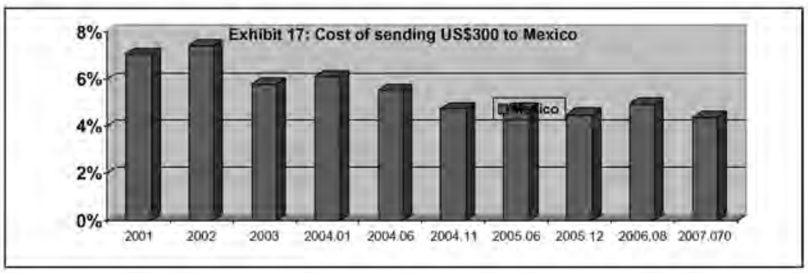
Exhibit 14: Use of remittance card

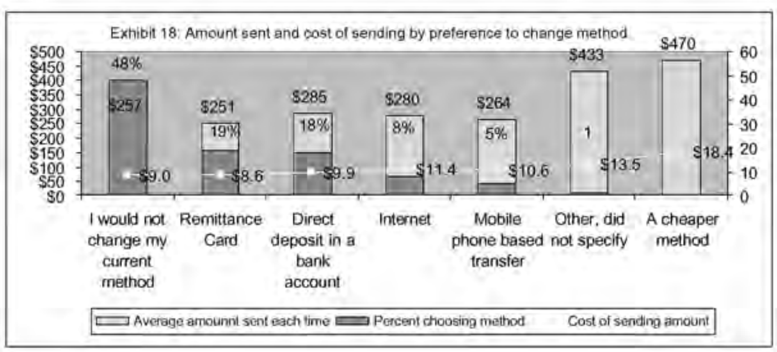
Remittance card	Mexico	D.R.	Jamaica	El Salv.	Guatem	Boliv.	Nicarag.	Total
Percent	*1.8*	*5.0*	*6.5*	*12.8*	*1.0*	*8.0*	*13.0*	*6.3*

Source: Orozco, Manuel. Card based transfers study, 2007.

Exhibit 15:Percent of people using banks for Money transfers: 1.00% (2004); 3% (2006); 7% (2007)







Mr. ENGEL. Thank you. Mr. Armenteros.

STATEMENT OF MR. ERNESTO ARMENTEROS, CHIEF EXECUTIVE OFFICER, GRUPO QUISQUEYANA

Mr. ARMENTEROS. Thank you, Mr. Chairman and Members of Congress. I also would like to thank you for the invitation to share my thoughts on this very important pursuit. You asked us to testify about how to unlock the full potential of remittances for development. I will try to draw on my experience to answer those questions as best as I can within the time limitations we have.

In 1998, right out of school, I joined the delivery operation of Quisqueyana in Santo Domingo, Dominican Republic. In the 19 years since I have worked on innovations under delivery methods.

That means delivery in cash on delivery, on visa cards, on bank accounts, innovations in the retailing of remittances, retailing the remittances through agents, through branches, in the internet as service provider to portals and to third parties including financial institutions, developing systems and procedures to integrate sales of nonremittance services, loyalty and cross selling programs, anti money laundering systems and controls, advising licensing and anti money laundering regulators in sending and receiving countries, originating and advising commercial and noncommercial trade organizations and initiatives, and developing systems and products that link users of remittance services to financial services, and in micro lending as it relates to remittances.

We currently serve ½ million customers and have successfully delivered over 15 million remittances. I will draw on these experiences, and my answers will be compressed and might seem simplistic, and I will be available to discuss them in detail with whomever is interested.

In summary, I am convinced that the key to unlocking the full potential of the remittance flows as a driver of explosive development lies exactly at the point of convergence between remittances and financial services. I also believe that our ability to effectively and efficiently leverage and link the different elements of a remittance and the elements of financial services and to liberate this potential requires removing multiple legal, practical and philosophical obstacles inserted for one reason or another by regulators, legislators, banks and remittance companies.

And finally, I do believe that our success will correlate with our ability to remove those obstacles from where they are being more disruptive to this effort. And I will frame some specifics on the context of your questions.

How can remittance companies like ours enhance the opportunities for private citizens to make productive use of remittances? This is one of the philosophical obstacles I have been talking about. It is a myth that private citizens, remitters and their beneficiaries make nonproductive use of their remittances.

More than any kind of local or foreign aid or industry conceived by governments or financial institution up to this date, the simplest kind of cash remittances if left untouched as they exist today augment the expendable income of recipient families that live in the poorest regions of the world, energize commerce and the local economies of the towns, cities and countries that receive them, allow senders and recipients to save and to invest in small businesses and in real estate thus enhancing the resources available for education, housing, retirement and health care where little or none existed before, defuse social unrest through the relief of the economic pressures and disparities that cause it, thus removing some of the motivations for subsequent migration.

I also like to point that with a transfer of money there is also a cultural transfer. There is many times left untouched or nobody talks about. As migrants go back home, there is a cultural exchange, and receiving countries learn about the United States, about the rule of law. There are a lot of intangible benefits that have nothing to do with the transfer of money with migration that would require 5 hours.

I believe that we should be aiming for migrants and their families to make more productive use of their remittances without demonizing or handicapping the way we are doing them now. We need to make it easier, cheaper and safer for them to leverage those remittances into improving their access to debt and to capital, and enjoy the greater positive impacts such access can have if well-invested.

The most practical way to accomplish this is for remittances companies to either partner with banks and/or micro lending institutions where banks and MLIs create financial services that are designed specifically for remitters on the send side and specifically for beneficiaries in the recipient country and use the remittance companies as distribution vehicles for those services. The other alternative is for remitters to morph into specialized banks where they can create and market those services themselves.

I believe that partnering is more efficient because banks have turned out to be relatively unsuccessful at substituting remitters and vice versa. The fundamental causes for these are mismatch footprints, clash of culture, mismatch cost and income structures and the steep learning curves required to succeed in both the banking and on the remittance industries.

You mentioned that it would be ideal for remittance to go from account-to-account. For 19 years I have tried to make that work, and to give you an example of what I mean by mismatch footprint as a fundamental impediment for banks substituting remitters, going to Manhattan in New York 80 percent of the bank branches are south of 125th Street. Eighty percent of remittance outlets which are 10 times as numerous are north of 125th Street.

So you have that the infrastructure that has been created by banks is not well-suited to distribute remittances. So we have to work around that impediment, and the way to work around impediment is to remitters and banks to partner and to create those services and distribute them through the remittance companies. It will have the same effect.

I also talk here about——

Mr. ENGEL. Yes. If I can just ask you to summarize.

Mr. ARMENTEROS. Okay. I will.

Mr. ENGEL. We are a few minutes over, and we will have some good questions that you can enumerate some of these points.

Mr. ARMENTEROS. Okay. I will shoot through the rest. What can government and financial institutions do? Promote remittance companies, remitters and their beneficiaries as good in the extreme, welcome them with open arms, and work with them to create services to satisfy their particular needs, remove legal and regulatory impediments for remitters to access credits and all types of accounts that mainstream Americans take for granted, promote the integration of remittance flows as part of the credit history of recipients and remitters, and securitize those flows, promote and remove the limitations for the use of credit and collateral across international borders, intensify promoting the idea of pooling resources of migrants from specific towns and paying them with international and local aid programs to developing infrastructure in those towns, and aggressively protect remittances from attempts by national and local governments to tax or limit them in any way.

[The prepared statement of Mr. Armenteros follows:]

PREPARED STATEMENT OF MR. ERNESTO ARMENTEROS, CHIEF EXECUTIVE OFFICER, GRUPO QUISQUEYANA

HOW TO UNLOCK THE POTENTIAL OF REMITTANCES FOR DEVELOPMENT

Dear members of Congress;

I would also like to thank you for the invitation to share my thoughts on this very important pursuit.

In 1988, right out of school, I joined the delivery operation of Quisqueyana in Santo Domingo, Dominican Republic. In the 19 years since, I've worked on;

- i) Innovations of delivery methods such as; home delivery, multicurrency delivery, delivery on savings, mortgage and checking accounts, delivery on Visa cards, delivery in kind (ex. appliances, groceries, flowers)
- ii) Innovations in the retailing remittances at the send side such as; customer interaction through both Agencies and company owned Branches, with both dedicated phone and dedicated computer terminals. Retailing through internet portals, and supplying third party portals, and financial institutions with private label back end processing
- iii) Developing systems and procedures to integrate sales of non-remittance services
- iv) Loyalty and Cross Selling programs
- v) Anti Money Laundering (AML) systems and controls
- vi) Advising Licensing and AML Regulations of Remitting and Receiving countries
- vii) Originating or advising commercial and non-commercial Trade Organizations and Initiatives
- viii) Developing systems and products that link users of Remittance Services to Financial Services
- ix) Micro Lending as it relates to Remittances

We currently serve over 500,000 customers, and have successfully delivered over 15 million remittances.

I'll draw on these experiences to try and answer your questions. Because of our time limitations, those answers will be compressed and might seem simplistic, but I'm available to discuss them in detail with whoever is interested.

I'm convinced that the key to unlocking the full potential of remittance flows as the driver of explosive development lies exactly at the point of convergence between remittances and financial services.

That our ability to effectively and efficiently leverage and link the different elements of a remittance with the elements of financial services, and liberate this potential, requires removing multiple Legal, Practical and Philosophical obstacles inserted for one reason or another by;

- Regulators
- Legislators
- Banks
- Remittance Companies

That our success will correlate with our ability to remove these obstacles from where they're being more disruptive to this effort.

I'll frame some specifics in the context of your questions;

I. How can Remittance Companies like Quisqueyana enhance opportunities for private citizens to make productive use of remittances?

- This is one of the philosophical obstacles. It is a myth that private citizens, remitters and their beneficiaries make non-productive use of their remittances. More than any kind of local or foreign aid or industry conceived by governments or financial institutions up to this date, the simplest kind of cash remittances, if left untouched;
  - — Augment the expendable income of recipient families that live in the poorest regions of the world.
  - — Energize commerce and the local economies of the towns, cities and countries that receive them

  - Allow senders and recipients to save, and to invest in small business and in real estate, thus enhancing the resources available for education, housing, retirement and healthcare where little or none existed before
  - Defuse social unrest through the relief of the economic pressures and disparities that cause it, thus removing some of the motivations for subsequent migration
- We should be aiming for migrants and their families to make more productive use of their remittances without demonizing or handicapping the way they're doing them now. We need to make it easier, cheaper and safer for them to leverage those remittances into improving their access to debt and to capital, and enjoy the greater positive impact such access can have if well invested.
- The most practical way to accomplish this, is for Remittance Companies to either;
  - Partner with Banks and/or micro-lending institutions;
    - Where Banks/MLI's create financial services that are designed for remitters on the send side, and for beneficiaries in the recipient country, and use Remittance Companies as distribution vehicles for those services
  - Morph into specialized banks, where they can create and market those services themselves
- I believe partnering is more efficient because Banks have turned out to be relatively unsuccessful at substituting remitters, and vice-versa. The fundamental causes are; mismatched footprints, clash of cultures, mismatched cost and income structures, and the steep learning curve required to succeed in both the banking and the remittance business

II. How can the U.S. Government, international financial institutions, and countries in Latin America and the Caribbean best help leverage remittances for development?

- Governments and Financial Institutions (U.S., Foreign and International) should;
  - i. Promote Remittance Companies, Remitters and their Beneficiaries, as good in the extreme, welcome them with open arms and work with them to create services that satisfy their particular needs. Such as;
    - a) Loan agreements that integrate into their profiles the predictable extra income of remittances and their assets abroad, its immunity to LA currency volatility vs. the US Dollar and the additional guarantee of a foreign earner of hard currency

      Ex. Mortgages for 2nd homes, for financing education, for small businesses, which can be collateralized and paid for in hard currency
  - ii. Remove legal and regulatory impediments for Remitters to access credit, all types of accounts, and all banking services that mainstream citizens take for granted
  - iii. Promote the integration of remittance flows as part of the credit history of recipients and remitters, and securitize those flows to increment the amounts, lengthen the periods, and reduce the financial costs of loans and capital
  - iv. In the case of remitters and their families, promote and remove the limitations for the use of credit and collateral across international borders
  - v. Intensify promoting the idea of pooling resources of migrants from specific towns, and pairing them with International and Local Aid programs to develop infrastructure in those towns
  - vi. Aggressively protect remittances from attempts by national and local governments to tax or limit them in any way

III. How successful have U.S. efforts—including those of the U.S. Agency for International Development, the Millennium Challenge Corporation, and the U.S. Department of Treasury—been to date?

Although there are exceptional success stories and flashes of hope, the aggregate efforts have been weak and the results reflect it. The idea of embracing immigrants and integrating them into the financial mainstream, much like Spain has pursued to their great benefit, is violently opposed by some political groups in the U.S. This attitude turns off many initiatives by public and private individuals and institutions, and perpetuates the problem at a cost of Billions of dollars each year. However and in spite of this, there are many opportunities for institutions like USAID

or MCC to leverage remittances and enable the convergence between remittances and financial services. In fact, stimulating such convergence should be a task of development agents.

Mr. ENGEL. Okay. Let that be the last word. You can submit everything else into the official record, and we will have some questions for you. Mr. Schmitz.

STATEMENT OF MR. KAI SCHMITZ, EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER, MICROFINANCE INTERNATIONAL CORPORATION

Mr. SCHMITZ. Mr. Chairman and members, I thank you for the invitation. Our company serves about 60,000 mainly Hispanic immigrants in the greater Washington area with the range of financial services, money transfer, check cashing.

Mr. ENGEL. Let me just ask you to break. If you can bring your microphone up a little bit it might be helpful.

Mr. SCHMITZ. We provide money transfers, check cashing, small insurance. We do have a small loan program, and we do a range of other financial services that try to provide migrants with a realistic set of financial services. We also operate a money transfer platform that we license to banks and we provide consulting services to banks to service migrants better.

We believe that the issue of remittances and development is very important, and we believe that is very promising. However, we also think that it requires careful consideration of some underlying social and economic issues. Migration very often is a result of frustration with the lack of economic opportunities in the home countries and the search for better economic opportunities in another country.

Our customers sometimes find the idea that they should leverage their remittances for public programs that would foster development cynical because they feel that they are not willing to give money to public programs of governments that they feel have failed to deliver to them to create the economic opportunities that would have allowed them to stay in their home countries.

I agree with the chairman that the private nature of remittances provides certain limitations on how remittances can be used. However, I also agree with Mr. Armenteros that many remitters, many migrants look for opportunities to invest in their home countries, and many have the dream of returning after they spend 5 or 10 years in the United States, and return to a better economic reality. They want to buy houses. They want to create small businesses, and they want to provide better social and financial security for their families.

We feel that the key to leveraging remittances more for economic development lies in creating those investment opportunities for migrants that enables them to both fulfill the objectives of their migration and at the same time also further development objectives. We feel that recipient country governments need to address the root cause of migration and work where they can with migrants and migrant associations to enable more productive investment in the home country by migrants.

Many international financial institutions and multilaterals are fascinated by remittances because of their large aggregate size.

However, I think they start to realize that the funds are not destined for development. They are private flows and often go to very, very urgent needs of the families.

There is a lot of research being done on the microeconomic impact of remittances but very little is being done on what the remitters actually want, and I think that is a critical issue. I think that we need to have a better understanding of what the migrants who are the originators of the remittances want. What do they want to invest in? What is important to them? What kind of economic opportunities do they want to see in their countries and what they are willing to invest in?

I think that multilateral institutions and government institutions just as USAID and others can help to establish programs that monitor these investments and provide the migrants with a better investment opportunity, and ensure that they feel that their investment actually achieves the objectives, be it individual benefits or be it development objectives.

I also agree with Mr. Orozco that the issue of access to financial services for migrants is critical in this context. Many banks that we work with either in providing our remittance platform or in consulting them on how to develop products for the Hispanic segment are almost frightened to create products or offer services to migrants, and I think that the issue of money laundering and the issue of security cannot be taken lightheartedly. However, I think the solution to these problems do not lie in the regulation of financial services.

I believe that in many cases banks and other regulated financial institutions could offer migrants better products and could help them to establish and to create greater financial stability which will in turn enable them to send more money home to their countries, and thereby foster development. There was a question in the briefing and also here earlier about the slowdown in the development and the decrease of remittances.

We cash a lot of checks from many of the employers of Hispanic workers in the area, especially in Virginia where the construction sector has slowed down significantly. We see the amount of checks being reduced. We also see that the amount of remittances are slower, but at the same time we also see that many of the migrants simply move to another place. If they work in an area where the employment opportunities are not given anymore, they move to North Carolina. They move to other states. They just move to another county.

So this work force is very flexible, and I think this is one of the reasons why historically remittances tend to be relatively resistent to economic downturns, and maybe related to this I would finish with one quote from a discussion that we had with the big employer of migrants in Delaware, a chicken processing company.

The management there told us if the workers would move away from this area, they would not have enough workers, and they would probably consider to move their plants to Mexico, to Guatemala where most of their workers are from, which would mean that the blue collar jobs that are mainly filled by Americans would also move to Mexico or to Guatemala, and I think that is an issue

that in this whole debate is sometimes overlooked. Thank you very much.

[The prepared statement of Mr. Schmitz follows:]

PREPARED STATEMENT OF MR. KAI SCHMITZ, EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER, MICROFINANCE INTERNATIONAL CORPORATION

Dear Chairman and Members of the committee, I thank you for the opportunity to testify before the committee on the important subject of remittances to Latin America and the Caribbean. I testify as the Executive Vice President of Microfinance International Corporation which operates a financial institution that serves approximately 60,000 mainly Hispanic migrants with financial services ranging from money transfers and check cashing to loans and insurance. Our company also provides a remittance solution to banks and has worked with a range of financial institutions to adopt a financial services offering for Hispanic consumers. I personally have many years of experience with the remittance markets in Europe, the U. S., Latin America and Africa and have acted as a remittance expert for government, multilateral and private organizations.

Remittance companies alone can do relatively little do enhance opportunities for migrants and the recipients of their remittances. However, a better offering of financial services for migrant remitters from all providers of such services can increase the financial security and well being of migrants and their families and in turn increase remittances.

Remittance companies have filled a void left by banks that were unable or unwilling to serve migrants. While most migrants from the region are unbanked, they have a need for financial services such as check cashing, money transfer, bill payments and others that is served by non-banking financial institutions called money services businesses. These non-bank financial institutions often function through retailers and offer only one service or a bundle of non-integrated services. They lack the ability to offer more beneficial or value-added financial services such as savings accounts and credit products which would increase the financial stability of migrants. Due to inefficiencies or exploitation their prices are often high so that migrants on average spend a much higher portion of their income on financial services than the general population.

Banks and credit unions could arguably service migrants better but are often unwilling to do so due to a lack of clarity of regulation, their dependence on credit histories that migrants often do not have and a false understanding of the compliance risk associated with serving migrants. In our discussions with banks we often find that they are unsure if regulations permit them to open accounts for migrants so that they see serving migrants as a compliance risk.

Following guidance by the OCC that money services businesses are a money laundering risk and therefore require extensive compliance monitoring by banks serving them, banks in the U. S. have started to close the accounts of money services businesses, thereby often eliminating the only intermediary migrants have to banks. This has reduced competition, increased prices further and made banks even more concerned about serving migrants.

In other countries, notably Spain, where a clearer regulatory environment exists, banks have created subsidiaries specialized in serving migrants that have improved both their profitability and the financial situation of migrants.

Migrants in the U. S. instead are stuck with a subprime offering of financial services, do not receive appropriate financial advice and as a result are often exploited. Clearer regulation for banks on how to service migrants and incentives to do so would improve the financial situation of migrants, enable the creation of specialized financial institutions for migrants, and allow for a cooperation between non-bank financial institutions and banks to create better offerings for migrants.

Rather than aiming to leverage remittances—which are private flows of income that have already been taxed—for development, recipient countries in Latin America and the Caribbean should work on curing the root cause of migration.

Migration is usually a result of frustration with the situation in the home country. People are forced to leave as they cannot provide for their family or leave in search for better economic opportunities. They often find however that the new life in the host country is not easy either as they form the lower class of cheap labor, miss their home country and their families, and have to work very hard to cover their own expenses and support their dependents in the home country.

Our migrant clients often find it cynical to suggest that they should "leverage" their transfers for development by channeling part of the remittances into programs

of the same public sector that in their opinion has contributed to the need to migrate due to its inefficiencies and poor policies.

Recipient countries that would like to see a larger portion of remittances invested locally need to open the way for this by creating attractive investment opportunities for the remitter or recipient. Governments of the host countries can support this by contributing to such projects and monitoring them for appropriate use of the funds. However, to take any stronger action to somehow "direct" the flows toward some governmental objective implies a level of coercion and inappropriate intervention in a private transaction.

Home country governments also need to realize that remittances tend not to reach the poorest of the poor as they often do not have the means to migrate. Remittances can therefore not replace social policies and programs.

The US government can help to provide a legal framework for migration and use remittances as a lever to facilitate change in the home countries of migrants. It should put a legal framework in place that gives migrants equal access to banking and other financial services. Governments' role should be limited to make transfers easier and improve the situation of migrants or their families rather than redirecting remittance flows into public programs. International Financial Institutions and Development Organizations should direct their research efforts towards a better understanding of remitters' objectives and support the creation of sound investment opportunities that benefit development and fulfill these objectives.

I have already expressed that I believe that given the private nature of remittances and the fact that they subsidize income for basic needs there is limited scope for remittances to function as development aid. The US government can however help to improve the situation of migrants by creating a framework for migrants to work in the US legally, ensure that they have equal access to financial services, and can hence fulfill their dream of working in the US for a few years, saving enough money to buy a house and create a business, and return. The simple step of clarifying the rules for U. S. banks to engage with migrants and realistically analyzing the risk associated with it would improve the financial situation of migrants, reduce remittance costs and hence ultimately increase the money available for transfer. On a foreign policy level, the U. S. Government can use its important role as the origination country of these flows to support the objectives of its foreign policy.

International Financial Institutions are fascinated by remittances due to their aggregate size. However, they too need to realize that these funds, however large they may be, are not destined for development programs. Much research has been done on the size of the remittances, how they are send, and what they are used for. If these flows are to play a role in development however, it needs to be better understood what the owner of the funds wishes to invest them into. In our experience many migrants want to use the money they earn in the U. S. to buy a house and create a business to ultimately return to their home country. We are however aware of very few instances where this plan is actually successful.

A lack of opportunities to invest, the problems of managing an investment across borders, or simply bad investments due to a lack of financial education or poor advice in many cases extend the stay of the migrant in the U. S. and destroys the potential for development benefits. International Financial Institutions have an important role to play in the development of projects and programs that create better investment opportunities for migrants. There is a lack of programs that enable migrants to obtain credit to build or acquire houses, provide funding and technical assistance to establish a business, or help them to invest in long term benefits such as education or health insurance. Further research on remittances as a macroeconomic phenomenon is not going to change this.

The recent economic downturn in parts of the U. S. housing market has reduced the number of jobs for migrant workers and in return reduced their income and ability to send money home.

Evidence from our check cashing and money transfer operations in areas with a large construction sector as well as anecdotal evidence from clients indicates that the reduction in new construction of homes has reduced employment opportunities for migrants and led to a reduction of incomes and money transfers. There are also indications that migrants have moved away from areas where construction jobs were lost to areas with better employment opportunities or have changed to work in different sectors. This flexibility shown by the migrant workforce may be a reason why historically remittances have shown to be relatively resistant to economic downturns.

In summary, it is my opinion that the US government could best improve the role of remittances as a private social insurance by improving the situation of migrants in the US and enable banks to serve them better. Governments in the host countries and multilateral development organizations need to shift their focus from the study

of the macro-economic phenomenon of remittances to the creation of investment opportunities that enable remitters to reach the objectives of their migration and create development benefits.

Mr. ENGEL. Well, thank you very, very much. Let me start with you, Dr. Orozco. Are there better strategies to facilitate and bank remittances at Latin American banks which are owned by large transnational United States banks? And if not, why do you think that is not the case?

Mr. OROZCO. I am sorry. Can you repeat the question please?

Mr. ENGEL. Yes. Are we implementing strategies to help facilitate and bank these remittances by Latin American banks that are owned by large United States banks, transnational U.S. banks? Are they doing anything in this regard to help facilitate in bank remittances and utilize remittances? And if not, why do you think not?

Mr. OROZCO. From a private sector side, only Citibank has tried to explore some of these activities, especially lately they have been acquiring a large number of banks in Latin America. But in practical terms, there is not really a strategy that is focusing directly on account-to-account transactions for example.

And I think part of the reason is that the banking institutions make the assumption that the sender and the recipient are poor people who are not likely to save and have bank accounts. Therefore, they do not become a part of the marketing strategy. There are some cases where that has happened. For example, Banco America tried to do account-to-account transfers with Mexico but the strategy did not go very far. It was a limited exercise that did not receive much support on the Mexican side.

And I think we need to encourage more of these institutions to work on that. The FDIC has tried to motivate banking institutions to work with Latin America, and the Federal Reserve Bank of Atlanta has also encouraged United States banks to work through their program Direct to Mexico, which is an automated clearing house system that connects the United States banks with Mexican banks to perform account-to-account transactions, and those are initiatives that could be pursued because not only they lower the transaction costs but more importantly is to provide access to the financial system, and that can be replicated in countries like El Salvador, Guatemala, the American Republic and Jamaica and including Colombia.

Mr. ENGEL. Thank you. Mr. Armenteros, in your written testimony you noted that the U.S. efforts to leverage remittances for redevelopment—and this is a quote from you—"have been weak and the results reflect it." I agree with you. What more can the Treasury Department, USAID and the MCC do to leverage remittances for development?

Mr. ARMENTEROS. Well, the key, like I said, is in inclusion. If we remove the obstacles that for one reason or another have been placed on senders to be able to access the banking services that everybody else takes for granted and on the delivery side remove the obstacles, like Dr. Orozco was talking about, so the recipients can do the same, as all these recipients and remitters and recipients migrate and start using banking services, you unleash and it hits critical mass. You unleash multiplicative effect of them saving, using credit, having access to capital and that.

It sounds very basic because everybody in the U.S. has access to these services, but you would be surprised to what extent migrant communities, diasporas and the recipient communities in the countries of origin do not have access to these basic services. Some of them are very basic like the one I spoke about, about geographical mismatch of the footprint of banks versus where the immigrants are.

Another one is a cultural. Clash of cultures. What I mean by that is that banks are not welcoming either in their procedures or in their legal limitations to immigrants coming into the banks in either side, and so if you can have remitters who are experts at dealing with migrant, immigrants and the recipients work with banks to create the services and distribute them and sell them, you have a quicker way, a more efficient way for these communities to have access to banking. That is I think where the key lies.

Mr. ENGEL. Thank you. Mr. Schmitz, it has been argued that remittance receivers while poor are not the poorest of the poor because it takes money to migrate to the United States and Europe that the poorest of the poor can simply not afford. Is that a true statement? And do remittances generally not reach to the poorest of the poor in Latin America?

Mr. SCHMITZ. Well, I think too particularly remittances do not reach to the poorest of the poor. To give you an example, to pay a trafficker to move somebody from El Salvador to the United States illegally costs about $7,000, and this is usually paid by a loan. So the person who would take this loan who wants to go to the United States to begin needs some kind of a down payment, also needs some kind of a collateral, and very often you have small farmers that pledge their little plot of land for example, and they then migrate.

In our experience, which is limited, we see that very few of our customers who particularly tend to be very I guess migrants that have been here between 3 and 7 years, had some kind of an economic livelihood in their home country, maybe making around $5 a day or so. That is a number we hear again and again. Why it is really the poorest of the poorest you find as $1 a day.

So I think particularly I would agree with that statement. However, of course there are some of the very poor that still make it, and sometimes they just migrate to another country. There was an example here of migration from Nicaragua to El Salvador. There is also a lot of migration from Nicaragua to Costa Rica for example, and remittances are being sent between these countries, and it is my feeling that the poorest of the poor probably use these kinds of migration opportunities rather than going to the United States or to Spain.

Mr. ENGEL. Thank you. Let me just ask a general question. I actually have a couple of general questions, and anyone who wants to answer it can answer it. You heard me ask the first panelist the frustration that the Millennium Challenge Corporation's compacts with Latin American countries have not attempted to leverage remittances for development. Do you agree? And how can these Millennium Challenge Corporation's compacts in their region include components to increase the developmental impact of these remittances? Anybody who wants to answer that can answer that.

Mr. OROZCO. Just briefly. The main remittance countries in the world happen to be those countries in the compact of the MCC, and they happen to be some of the poorest countries in the world, and it just does not make sense that there is no intervention. I think the reason might be that there is little knowledge about the reality of remittances and the impact they can have.

The way for them to see to participate on this is exploring ways to strengthen the financial system in their countries where they are working and promoting efficient channels to have access to the recipients to have bank accounts and savings accounts. MCC works also in some areas relating to small business development, and they can help create investment portfolios whereby migrants who are the likely people to be prepared to take risk to invest in some business enterprise could benefit from a scheme and different beneficiary countries of the MCC.

Mr. ENGEL. Thank you. Let me ask this question, my final question, and then I will let my colleagues ask questions. Anyone who would care to answer this. We are arguing here about how banking the poor, as we call it, is in the poor's best interest but many poor Latin Americans are very dubious about putting their money into bank accounts. Is there a cultural reason for this reluctance to use the banking system?

Have poor people's attitudes toward mainstream banking changed at all in recent years? Does it differ country-to-country or region-to-region? And how can we work with Latin American countries and communities to alter perceptions and deeply ingrained cultural patterns to allow more people to be comfortable with and take better advantage of the banking system?

I must tell you that I remember even myself when ATMs were first put into effect for years I kind of had this attitude that I did not want to put my money in a machine. I wanted to put it in the hand of a real person, and I always felt that way, and I remember once going into a bank and saying that and had one of the people tell me, if you use an ATM it is even more secure than if you go into a bank and hand your transaction over to a real person. I never forgot that. Now I use ATMs all the time.

So we all have these cultural aversions to certain things. I am wondering if any of you would care to comment on that.

Mr. ARMENTEROS. The way to do it is the same way you got to use the ATMs essentially. You need to have banks, bank branches and tellers and procedures be welcoming. You have to start with that, and by welcoming I say that an immigrant cannot feel like it is a threat to them to go into a bank, give them their names, open an account. They need to have someone—if they cannot speak English—they need to have someone that speaks their language.

They need to be hand held through the very basic, through the start up and the very basic banking services. If that does not exist, a good example and a template that the three of us have mentioned is Spain. Europe and Spain and you asked the previous gentleman about this, we had an operation in Spain, and we have competed against the Spanish banks, and what they have done that has not been done here in the United States and other places is that they got ahead of the problem.

They realized they needed immigration. They realized that orderly immigration in the numbers they needed from the professional backgrounds they needed was preferable to disordered immigration. They actually worked on it, and as soon as someone got to Spain, an immigrant got to Spain, they got a work permit, access to the banks, opened a bank account, et cetera, et cetera, and then you have that in Spain there is a peculiarity. The financial institutions with the biggest footprints are the Cajas De Ahorro, which are the equivalents of savings and loans like La Caixa, like Caja Madrid. They are everywhere. They are absolutely.

The mismatch I told you about Manhattan does not apply there. They will fight for your business to death. They will open an account. They will cheapen the prices. They will give free everything to get you in no matter if you are from the moon, and then they will lend you money, and they will encourage you to take a loan, a mortgage, and the whole thing just cascades into more capital accumulated in the banks and to more construction and more taxes being paid, et cetera.

Mr. ENGEL. Thank you very much. I think you make the point very well. Mr. Sires.

Mr. SIRES. Mr. Armenteros, I do not think we want to get to that point where we fight you to death for an account. I just have a couple of questions. Dr. Orozco, you were talking before about how the money that is remitted has helped create bank accounts in El Salvador and in other places. Can you expand a little bit on that?

Mr. OROZCO. Without any intervention, any person who has been receiving money for at least 5 years end up accumulating significant amounts of savings, over $2,000, and they are able to put them in a bank. When a financial institution realizes that there is an opportunity to be made not only for those people who take 5 years, they accelerate the process by opening bank accounts to the area recipient. After 1 year they start offering you, and the result turns out to be that these individuals, at least 30 percent of remittance recipients become bank clients, and they start by opening savings accounts.

Then there is another group of people who begin to borrow loans, and now we are trying to promote also different kinds of insurance products. One insurance product that is becoming popular in Mexico is brotherly repatriation, and it is for the migrant in the United States but you buy the insurance over there, and if the person dies then you can be able to afford to pay the 5, $10,000 return of the body.

So there is an increasing process but it is not a systematic one, and what we are trying to do from the positive perspective is to promote opportunities for banking institutions to accelerate this process of financial service delivery, and it is an early process but this is where developing institutions like USAID can participate to trigger the change.

Mr. SIRES. I assume that you do not agree with this idea that it creates people that stay home and do not go to work because they get this little amount of money every month?

Mr. OROZCO. No, no, no. I think——

Mr. SIRES. Whoever made that assumption I guess you do not agree with?

Mr. OROZCO. I would be happy to take you to those communities and show you but just it is simple arithmetic. Twenty percent of remittance recipients are people over 55 years of age and are almost about to get ready out of the economically active population. Another similar percentage are under 18 years of age. They are not in the economically active population. And then half of the people who receive remittances are actually employed. The other half or two-thirds sometimes are women household homemakers. So, I mean, the arithmetic does not add up on that case.

Mr. SIRES. So we are not creating this lazy portion of society?

Mr. OROZCO. You are not creating it but you can find them. I mean, you can always find the lazy person. I can point to them. Every country I go to you find them but the trend is not that.

Mr. SIRES. Okay. Can you help me understand a little bit this idea of remittance use for development? Some people have this idea that people that remit money to other countries, some of the monies should be used for development. Destine for development. I do not understand that, because I am having trouble understanding it because let us say it is me. I work here. I make this money. I pay whatever, taxes and whatever I do.

Then they want me to remit the money back, and they want to tell me how to use my money that I earned and paid my taxes here? Can you just explain that to me?

Mr. OROZCO. Unfortunately, the topic of remittances has become a very sexy topic and everybody develops an opinion about it, and some people say yes, you should use remittances for development but they do not know exactly what they mean. You cannot think of remittances as a developing too per se because they are already doing exactly what you need to do with that money is taking care of your families. That in itself promotes development.

So what one tries to do is to identify opportunities to leverage the funds, basically to inform the public about how you can multiply, increase or capitalize the money that you are saving, and you cannot go beyond that. You can offer education opportunities, et cetera, but you cannot tell people what to do with their money.

Mr. SIRES. So where did this concept come from?

Mr. ARMENTEROS. When people talk to me about remittances and development, how you can get more value, more development value out of remittances, what I mean when I am asked is take a lake on a volcano, on the top of a volcano. What you get from it is maybe fishing and a tourist attraction. If you build a generator, an electric generator halfway down the mountain and you have gravity come down and power the generator, you have electricity that you can use in the town next door. So without changing anything you have additional value coming from that.

This is from a book called *The Mistery of Capital*. In remittances, if you have remittances or a portion of remittances go to micro lending institution or microfinance institutions or banks, you have that the unused portion. I agree absolutely with you that money you get to do what you want but if you are taught and convinced that you can leave some of that money into a bank account, that alone accumulates capital. Multiply that capital by 1,000 remitters and depositors, and then you have that a micro lending institution has more resources to lend in the community that it resides in and

it helps the people that do not have access to capital and then it generates income for the owners of that capital.

And also for lending. Once you create a history, a credit history, you can access more capital than you have. You have $5,000, you need 15 to open a small business, you do not have to wait another 5 years to accumulate them. You lend them using as collateral and as credit history a securitization of your historical flow of money.

If the banker knows that your family has that income coming in every month and it has been there for the past 5 years, you can use that history to justify giving that person $10,000, and this is a peculiarity that is missed in many people. In poor countries there are only two types of people that have income and hard currency. They are very rich that have a CD in the United States or in Europe, and they draw interest, and someone with an aunt in New York or New Jersey that sends money.

So the fact that that family receives a reliable and predictable income in hard currency changes the risk profile of that person, and you can lend more money with longer periods at a lower rate, and it has more of an impact. That is what I mean when I am talking about it.

Mr. SCHMITZ. I would like to add just one thought to that. I think many migrants come here and they have the idea that they want to go back at some stage, and ideally they do not want to go back to the same situation that they left. So they want to build a house. Ideally they want to create a business or at least an employment opportunity, and I think this really is what creates development because if they create small businesses, they build houses, they create assets, they may create employment opportunities for other people also.

Sometimes they also have a knowledge transfer. They learn things here. They learn how to run the restaurant for example from working in the restaurant here. So they send money home to build a restaurant, and there is I think many examples where remittances are sent to pay for a house or for the improvement of the house but one of the biggest problems that we see is that there is no support for this type of investment on the ground.

If a remitter wants to build a house in their home country, say El Salvador and has a small plot of land he wants to build a house in this village, he does not have the $10,000 or $15,000 that he needs to build the house in one goal. As nobody gives him credit, they keep sending $1,000 every now and then whenever they can afford it, to lay the foundation, 6 months later build some walls, the problem is that this drags the whole project on for years. Some of the material gets stolen. Some of the funds get lost and so on.

So ultimately if the house is ever completed, they probably spend $35,000 on a house that should have cost $15,000, and something similar happens with business investments. They send money home to create a small business but as it is difficult to manage the business from here, and they cannot travel, they hire somebody. They use their cousin, their brother or somebody else to run that business. Sometimes it is not run very well.

So in the end the investment is unsuccessful, and I think the key to creating a development impact is to have programs on the ground that help small entrepreneurs to create these businesses, to

provide mortgage loans to people who want to build a house at home so that ultimately you can help the migrants to fulfill their dream and their objective of their migration.

Mr. SIRES. Okay. Then my last question is: Has there been progress in the last few years by some of these companies that offer money transferring to translate the fees and the requirements and the instructions regarding the transactions? In other words, have some of these places translated? They give you a chart with fees. Do they explain it in their own native language?

Mr. ARMENTEROS. Yes. To your question it is much more transparent than before, and the effect is that there is more trust. The combination of regulatory oversight and competition—me selling myself as more honest and transparent, having better rates—has forced everybody to be absolutely transparent about everything. Not everybody absolutely but it is not a problem anymore in most parts. That is my opinion.

Mr. SIRES. Anybody else have any thoughts?

Mr. SCHMITZ. Well, I agree to an extent. What you typically find in the very competitive areas where you have large migrant concentrations there is a lot of competition and therefore transparency is better. People are better informed. Sometimes there are NGOs that inform migrants about their options and about the meaning of foreign exchange gains for example, but you have other parts of the country where you have smaller migrant communities where there is very little competition where you typically only have one or two providers, and I think what you are describing still exists in those cases.

The prices are much higher. There is not much disclosure about foreign exchange rates. So I think in the big communities, yes, it has gotten much better but if you go to—I do not know Nebraska and Ohio where you sometimes find farm workers and so on—I guess you will find that it is very different there.

Mr. SIRES. Thank you very much.

Mr. ENGEL. Thank you. Mr. Faleomavaega.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman. Gentlemen, we have got a $62.3 billion pot that is remittances, and I am glad that Dr. Orozco, you mentioned the equation, the remittances and that of financial services. I was very impressed, Mr. Armenteros, that your company serves or provides some 500,000 people that made remittances, and that you issued 15 million remittances. That is a lot. I am curious. Out of the $62.3 billion pot, how much goes to financial services?

Mr. ARMENTEROS. How much goes to financial institutions?

Mr. FALEOMAVAEGA. Yes. Banking. The servicing of the remittances that goes to Western Union or whatever or however they have done this.

Mr. ARMENTEROS. Dr. Orozco has all the exact numbers on that but we all know them. Ninety-three percent of remittances go through money remitters like myself, and there must be about 3 to 400 medium, small or medium and bigger sized remitters including Western Union, MoneyGram, which are the better known brands in the U.S., and there are tens of thousands if not hundreds of thousands of independent agencies which are outlets that retail remittance services.

So I would say about 7 percent go through financial institutions. That is on the send side. Meaning 7 percent are retailed by financial institutions. On the receiving side, however, it flips. A much larger percentage, like——

Mr. FALEOMAVAEGA. I am not a mathematician, Mr. Armenteros. I just want to know out of the $62.3 billion of remittances, how much of that goes into the servicing of the $62.3 billion?

Mr. ARMENTEROS. Sorry. Yes.

Mr. FALEOMAVAEGA. 1 billion in financial services? In other words, how much do the banks get out of this whole thing?

Mr. ARMENTEROS. The banks process out of the——

Mr. FALEOMAVAEGA. Or whatever banking or——

Mr. ARMENTEROS. Financial institutions.

Mr. FALEOMAVAEGA. That provides the financial service.

Mr. ARMENTEROS. But the financial institutions retail and process about 7 percent of the $62 billion, which would be $4 billion.

Mr. FALEOMAVAEGA. $4 billion?

Mr. ARMENTEROS. $4 billion out of the $62 billion.

Mr. FALEOMAVAEGA. Okay.

Mr. ARMENTEROS. And the reasons why they have not been able to make a deeper inroads are the fundamental obstacles that I wrote down there in my opinion. But on the receive side, most of the remittances, a large portion of them, are delivered through financial institutions.

Mr. FALEOMAVAEGA. I know. I am just trying to figure what the financial services get out of this, and you said about 7 percent was about what, $4 billion?

Mr. ARMENTEROS. Yes.

Mr. FALEOMAVAEGA. Okay. That is not chicken scratch. That is not bad. You mentioned, Mr. Armenteros, that there is a cultural barrier. I suspect that most of these migrant workers there is a cultural barrier. The fact is that right now in our country when you come here illegally the culture barrier is that you are a violator of the law. You are almost being labeled as a criminal.

Now you mentioned in contrast in Spain they do not even care whether you are there legally or illegally, am I correct on that?

Mr. ARMENTEROS. No, no. They do care. Absolutely. But they do not allow it to get out of hand. As people immigrate into Spain, they have made strides and they have kept ahead of the problem and they have been able to—if not all—a large portion of immigrants they integrate into the labor force. They make them pay taxes. They give worker permits. They let accounts to be opened. So it is a more welcoming environment for immigrants.

Mr. FALEOMAVAEGA. Of course we cannot compare Spain to our country. The numbers have always said there are 12 million illegal immigrants but there have also been estimates that there are between 12–20 million illegal immigrants living here in this country. So I just wanted just to ask you when you say culture barrier, some banks do not want to serve you.

Here is the concern that I have. If I were an illegal immigrant and I am earning a bunch of money, I would be very reluctant to go to see a bank about doing any transactions. It is much easier if I were to go just to Western Union. They do not ask you any

questions whether you are legal or illegal. Just tell us where the village is, and we will send the money.

Mr. ARMENTEROS. There is a combination of those. There is that combined with the fact that like Dr. Orozco said before, banks typically—and this is changing—typically do not see as good business to bank the immigrant community. So they do not invest in it, meaning that few banks actually hire tellers and have their signage and their locations designed to serve this community. So it is a combination of those two things.

Mr. FALEOMAVAEGA. Would you say by and large the employers really have a great influence on some of these migrant workers to suggest what banks they go to or they know what banks are willing to service their financial needs if that is the way to call it? Am I correct on that, Dr. Orozco?

Mr. OROZCO. I think the employers do have a major role in this. For example, providing agreements with banks to do payroll deposit, direct payroll deposit into a bank account, even if it is a checking account or what they tell it a checkless account that does not have fees that they are taxing on the individual. You could have an important entry point, and some institutions are trying to get at that.

I think in general banks would like to do business with migrants but I think the banking culture in the United States has moved into too much corporate banking and away from the traditional way of doing banking 50, 60 years ago that is neglecting this migrant population, and as the society is changing this is going to affect the way we do banking in the future.

Mr. FALEOMAVAEGA. Well, I do not know about being negligent in looking at a $62 billion pot that could be serviced. I mean, as you said, some banks are willing to do it and others not. In the midst of all that we have discussed as some of the issues, pros and cons and the whole issue of remittances, do you gentlemen have any suggestions that maybe the Congress needs to address by way of statutory requirement or any way to help alleviate some of the problems that you raise here?

The biggest problem I have is that remittances is almost an equation to illegal immigrants working in this country. Now I am curious. When you say remittances, because I would say the vast majority of remittances being sent to the families in these countries where they come from are produced by illegal immigrants and not necessarily those who are here legally. I may be wrong on that, Mr. Chairman, but gentlemen, are you aware? I mean, do you have figures? Would you say that the vast majority of the remittances are from legal migrants or workers working here in this country?

Mr. OROZCO. To be honest, I do not look into it on purpose. I am not interested to look at it but what I can tell you is the following two things. One is that the percent of remitters is the same whether you are legal or illegal. So if you have 12 million undocumented population or illegal population, then take 70 percent out of that but the fact is that undocumented people are more likely to have a lower income than people who are naturalized or legalized. So they are sending less on the aggregate. So, I mean, you can think 50 percent of the money is sent by illegal immigrants.

Mr. FALEOMAVAEGA. Mr. Schmitz?

Mr. SCHMITZ. I do think that varies very much on which community you are looking at because for example the Salvadoran, the Honduran community have the TPS or temporary protect status which allows them to get a permit to be here and work. In other communities that is not possible, and they are of course the proportion of illegal immigrants is much large.

Our experience here is difficult to tell. While we service many migrants, we do not ask them for their visa status when they come to send a remittance but the majority of our clients are Salvadorans and Bolivians, and Bolivians have all been here for many years, and most of them are very well-established and send relatively large amounts, and I would assume that of the Salvadorans that form about maybe 25,000 of our customers, the vast majority are here legally because they have the TPS status.

However, to your original question, I think there is a cloud about this whole issue of remittances, legal, illegal immigrants, serving them with financial services, giving them access to banks or not, and I think what would probably help everybody that is interested in this whole topic is to get an actual solid understanding of whether providing financial services to illegal immigrants creates any kind of risk to the security of the country and provides a risk of money laundering, and I think the example of Spain is very interesting because the banks—as Mr. Armenteros has pointed out—created subentities that are specialized to serve these communities, and they are very often in the Hispanic neighborhoods, and they look very different to a bank branch. They are much smaller. All the staff are from these communities.

And in Spain there is no requirement to ask for the visa status but overall if you look at the situation in Spain, I would think that there is much more stability, there is much better data available. I think the government has a much clearer idea who is in the country, who is sending money, and overall I think the situation of the migrants on the ground is much better because they can go to a bank. They can open an account. They do not have to be paid with a check. They do not have to pay check cashing fees and so on. So in my personal experience, I would think that——

Mr. FALEOMAVAEGA. Do you think that perhaps we could take the lead from Spain and maybe——

Mr. SCHMITZ. Exactly. Well, I think if we——

Mr. FALEOMAVAEGA. For better servicing, for more efficiency and——

Mr. SCHMITZ. At least putting some clarity to the issue and maybe addressing what the actual risk is in serving migrants because I think the banks are still tapping in the dark. They are not really sure is it an actual risk to their compliance procedures or is it not. Sometimes the banks do not even know if they can serve migrants or not because there is no clear regulations. They do not know if they could accept a matricular consular or not. Do they need a Social Security number to open account or a TIN or neither? Can they use a passport from the home country?

Mr. FALEOMAVAEGA. Well, we have a very interesting situation, Mr. Chairman. I just found out that our Cubans, when they come, they do not care how you come as long as you make it to the United States border, and once you make it to the United States

border within 1 hour you get your papers because there is a little quirk in the Federal law, Mr. Chairman, that allows Cubans some years ago I think in considering them as refugees or whatever status that they received, any Cuban that can come here, we do not care whether you come through Mexico or any part of the world, as soon as you make it to the border, you declare yourself you are a Cuban citizen, within 1 hour your papers are legal, and you go visit.

The unfortunate thing is a lot of the times our friends in Cuba you have got to pay $10,000 to the person that is helping transport you, whether through the Yucatan. That seems to be the route they are taking now rather than come directly to Florida. They think it is closer to the Yucatan peninsula, and from there find your way through the jungles, and make it up to the Mexican border, and once you get there, just declare yourself, present yourself with a passport saying you are a Cuban citizen, and we have a law on that. I do not know if you are aware of that, Mr. Chairman.

Mr. ENGEL. The Cuban Adjustment Act.

Mr. FALEOMAVAEGA. There you go. Do you think that maybe we ought to have something like that for our friends that might need help in that regard?

Mr. ENGEL. Well, how many votes do you think we could get in the Congress, Mr. Faleomavaega?

Mr. FALEOMAVAEGA. One and a half.

Mr. ENGEL. Let me——

Mr. FALEOMAVAEGA. I just wanted to thank the gentlemen for their patience, and I thought their testimonies were excellent, Mr. Chairman, and as suggested by our friends here, maybe we ought to look at Spain as an example, and maybe how we could better facilitate some of the issues that we have discussed this afternoon.

Mr. ENGEL. I thank you. I think we should absolutely look at Spain. I have one final question before we adjourn. I want to direct it to Dr. Orozco, and it involves one of the things I said in my opening statement where the percentage of Mexicans who regularly make remittances fell to 64 percent in the first half of 2007, which was down 7 percent from 71 percent last year.

The drop was the steepest in states where Latin American immigration is most recent, states like Georgia, North Carolina or Pennsylvania, not traditional immigration states for Latinos coming to this country. In so-called new destination states, the percentage plunged to 56 percent this year from an average of 80 percent in 2006.

An Inter-American Development Bank survey of migrants found that one obstacle to sending these remittances is an increase in discrimination against Latin Americans here in the United States. Do you agree with that? And has the increase in anti-immigrant sentiments, including local ordinances, has that also affected remittance flows? Has the increase in removals of illegal immigrants affect remittance flows? And has the decline in the U.S. housing market affected remittance flows?

Mr. OROZCO. I think there is no question that the anti-immigration sentiment has intimidated migrants and made them less prone to send money because they feel that they have to go to the public. As to how many translated, I could not say but definitely it has

had an effect, and when talking to different money transfer companies, many companies say that they have experienced a growth in the volume of transfers made in places where there is less anti-immigrant sentiment. So people are either moving or going to those places to send money. So the trend is there, and how far is it, I do not know.

Mr. ENGEL. The crackdown on illegal immigrants logically helps keep poor people from becoming part of the banking system. It is the same thing coming from New York when we have the census every 10 years. We know there are hundreds of thousands of people living in New York City and the surrounding areas who are not reported in the census, and we feel it hurts us in terms of representation in Congress because our true population is not really getting out, and the Census Bureau says, well, immigrants, undocumented people could register, and we promise you we are not going to coordinate it with anybody else.

But if you are an undocumented immigrant, you are not going to. Chances are you are not going to take that chance. Is it not really the same thing here as well? People do not want to get involved with the banks because they are afraid they could be tracked down?

Mr. OROZCO. I think we might get close to that. Look the number of Hondurans being deported has reached 25,000 people in the past 9 months. Twenty-five thousand Hondurans. The Salvadoran is growing over 15,000, and so on and so forth. People know of someone who has been deported, and that is having an intimidating effect. So people do not want to have a public face.

Mr. ENGEL. Thank you. I want to thank the three gentlemen for testifying. It was very enlightening testimony. I know I learned a great deal, and we of course will follow up on this in the future. I thank you very much, and the hearing is now adjourned.

[Whereupon, at 4:08 p.m., the subcommittee was adjourned.]

APPENDIX

Material Submitted for the Hearing Record

Statement for the Record Submitted by the Appleseed Foundation

INTRODUCTION

Appleseed appreciates the testimony offered on October 2, 2007, in which valuable reflections on the possibility of leveraging remittances to encourage community reinvestment were voiced.

Appleseed would like to take the opportunity to expand on the testimony by submitting this statement for the record in which we present industry principles we trust should be instated both in the United States and Latin America. Remittances today represent a source of income that households around the world receive, and one that could be used at the household level to improve livelihoods in the long-term, rather than being used to simply reduce vulnerability in the short term. Access to financial institutions is core in achieving the integration of low-income communities in processes of building, diversifying and managing assets. Appleseed seeks to provide USAID with approaches to leverage remittances for the purpose of poverty reduction and community development.

Appleseed bases the principles and recommendations offered in this report on our extensive work with financial institutions and money transfer companies in the United States and Mexico. Much in line with the testimony, Appleseed encourages specific market-based solutions, industry-focused oversight and regulations, and the creation of partnerships between innovative and traditional financial services as a way to create mainstream access to financial services for remitters and remittance recipients. With these tools, Appleseed enables access to financial institutions that offer fairly priced, transparent, secure and reliable services to individuals of all socio-economic levels in the United States.

RECOMMENDATIONS

The magnitude of migrant remittances has attracted the attention of USAID, international organizations, policy makers, and local governments as the total of remittances received in many developing countries often out-numbers the amount of aid given. In order for remittances to be leveraged privately as a tool for development and prosperity, not only should the remittance market become more innovative and low-cost but it is imperative that people are given the necessary tools to save and leverage remittances.

In light of the stature and influence of USAID in Latin America, Appleseed makes the following recommendations for their action:

1. Encourage Model Consumer Disclosures in Remittance Sending

- While the testimony acknowledges the amount of remittances being sent from the United States to Latin America, we must also understand that remittances are sent between Latin American countries. For this reason, disseminating and encouraging models for consumer disclosure in financial institutions and remittance companies is of concern throughout the Americas.
- Disclosures should be clear, uniform, and available pre-transaction. The current practice differs from firm to firm and location to location, with some locations providing various components of pricing information prior to the transaction and others only after the transaction has been completed. Consumers need better tools to effectively compare service pricing and features.
- Disclosures should contain consistently presented information for consumers to compare service pricing, such as fees, exchange rates, availability of funds, and sample transactions that reflect typical remittance transfers.

- Because remitters place a high premium on the predictability of the transfer, an official disclosure should facilitate the comparison of services as well as act as a marketing tool for competitive industry players.

2. Establish a System to Implement and Enforce Voluntary Remittance Industry Standards

As part of the Appleseed Fair Exchange initiative, Appleseed has explored the possibility of establishing oversight systems to implement and enforce voluntary industry standards for financial institutions and remittance sending companies. Modeled on Fair Trade labeling in the coffee industry, Appleseed strived to define an organizational framework that could be put in place to implement these standards. Appleseed worked with its Fair Exchange Committee in order to target the most appropriate models in the context of the current international money transfer environment. Each of the following models for the establishment of an enforcement organization is applicable to a market-based, pre-transaction disclosure initiative, and could serve both the needs of the industry and the community if bolstered by USAID best practice standards:

- An *industry trade association* setting and enforcing market standards for its members;
- An *independent, non-profit organization* working to establish industry standards through grassroots work;
- An *independent, non-profit organization* setting and enforcing standards for industry; or
- *Individual businesses* setting internal standards for investments, suppliers, or agents.

3. Facilitate Innovations in Remittance Products to Encourage Banking of the Unbanked

Over the past five years, options for sending remittances have increased. Money transfer operators now offer cash-to-cash, cash-to-account, and even cash-to-card or card-to-card remittance options. Though card-based remittances, using stored value cards, have not significantly penetrated immigrant markets, they are being offered with more frequency and appear to be gaining market share. Internet-based remittance options are also expanding.

There are two remittance initiatives directly targeting financial institutions: the World Council of Credit Union's International Remittance Network (IRnet) and the Federal Reserve and Banco de México's Directo a México. These programs are currently gaining market share but have potential to impact the currently underutilized link between sending remittances and gaining access to broader financial services.

USAID should facilitate these and other market innovations and create incentives for federal regulatory and financial institutions to create account-to-account products like Banco de Mexico has created together with the United States Federal Reserve.

4. Incentivize Regulatory Innovation toward Mainstream Financial Inclusion

There are aspects of the United States regulatory system that encourage the inclusion of clientele from lower income brackets in the banked community, such as the Community Reinvestment Act and other community reinvestment techniques. Appleseed recommends that USAID work to create new models and frameworks as well as identify model regulations that could be adapted to country-specific terms to instill consumer confidence in local banking systems and to incentivize financial institution and other financial service providers to serve lower income communities with fairly priced accounts and credit.

Likewise, as was mentioned in the testimony, there exist regulatory structures that facilitate the ability for partnerships between microfinance institutions, traditional financial institutions and money transfer companies; Appleseed therefore, would encourage USAID to disseminate information on such models so that Latin American countries can implement them. Overall, USAID should work to identify regulatory packages and laws that encourage poverty reduction through access to financial institutions and their services.

APPLESEED'S PRINCIPLES IN INCREASING ACCESS TO FINANCIAL INSTITUTIONS

Appleseed trusts that the principles we use in our work to increase immigrant access to financial institutions and their asset building potential in the United States are applicable at a much broader level. Approaches Appleseed has used to accom-

plish the aforementioned goal of mainstream access to financial institutions and asset building potential are:

- *Remittances as a Credit Scoring Tool*—Appleseed is working with Fannie Mae and other organizations to scope the incorporation of remittance history as an alternative loan underwriting measure and we continue to work with various organizations to establish ways of recognizing remitting as a mainstream financial transaction.
- *Financial Education*—Since 2004 Appleseed has distributed over 400,000 financial education brochures in Spanish and English that educate immigrants and low income communities on access to financial institutions and asset building.
- *Financial Institution Outreach*—Appleseed has worked with many financial institutions across the United States to clarify business practices and the regulatory environment as well as facilitate their outreach and marketing to Latino immigrant communities.
- *Remittance Market Transparency*—Appleseed and its partners launched the Fair Exchange effort in April 2006 to explore the possibility of creating a market-based initiative for providing improved pricing disclosures in international remittance markets, similar to the Fair Trade branding of coffee.

Appleseed trusts that remittances can serve as a tool to bridge lower income and immigrant communities into mainstream financial services in the United States. Indeed Appleseed is not the only organization that has advocated for innovation around remittance sending. In the 2001 *Partnership for Prosperity* between the United States and Mexico, both countries focused on cooperation to reduce the cost of international remittances as an important joint policy goal. The 2004 Summit of the Americas in Monterrey, Mexico also affirmed the goal of reducing remittance costs in the Americas. A report from the spring of 2006 showed that prices are likely coming down. From 2000 to 2005, the average cost of sending $200 from the United States to Latin American fell from 10% of the transaction amount to 5.6%.[1] However, more can be done to reduce costs and improve price transparency, to assist consumers in comparison shopping for remittances. With existing disclosures it is often hard for consumers to understand, before they engage in a transaction, the full costs of sending a remittance, including transaction fees and the exchange rate spread, the difference between the exchange rate offered to the customer and that obtained by the remittance firm.

Recent studies by the World Bank have noted the importance of transparency in international remittance markets. A January 2007 report, entitled *General Principles for International Remittance Services*, listed as the first general principle, "The market for remittance services should be transparent and have adequate consumer protections."[2] A 2005 Appleseed study of the United States-Mexico remittance market highlighted challenges consumers face in determining and comparing exchange rate and fee pricings for low-dollar international remittances to Mexico across service providers. A major finding of the report, in line with the World Bank's principles, was that the international remittance market could benefit from consistent, accessible, and comparable pre-transaction pricing disclosures.[3]

As part of a new approach to implementing consumer disclosures, Appleseed and its partners launched the Fair Exchange effort in April 2006 to explore the possibility of creating a market-based initiative for providing improved pricing disclosures in international remittance markets, similar to the Fair Trade branding of coffee. The premise of the initiative is that offering clear pre-transaction disclosures for remittance transactions could increase the market share of participants, benefiting competitive players and consumers alike. By highlighting pricing up front, market participants would publicly signal that they are interested in dealing with customers in a forthright manner. Voluntary disclosures could help to improve the public image of the participating firms. Moreover, the Fair Exchange process would help to create a forum for industry and consumer representatives to engage in positive and creative dialogue and joint initiatives with the goal of producing mutually beneficial market solutions to other relevant issues. As part of the process of devel-

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[1] Manuel Orozco. "International Flows of Remittances: Cost, Competition and Financial Access in Latin America and the Caribbean-Toward an Industry Scorecard." Inter-American Dialogue. May, 2006. p. 2.

[2] *General Principles for International Remittance Services*. Committee on Payment and Settlement Systems. The World Bank. January 2007. p.21.

[3] Appleseed. *Creating A Fair Playing Field for Consumers: The Need for Transparency in the U.S.-Mexico Remittance Market*. December 2005.

oping a market-based voluntary disclosure program, Appleseed convened the Fair Exchange Committee, including representatives of the international remittance industry, banks, credit unions, federal and state regulators, and consumer advocates. Appleseed has worked with the committee to develop approaches for pre-transaction disclosures and for a Fair Exchange program.

We are working GroupEx, Mitchell Bank, Viamericas, and Wells Fargo to pilot the proposed disclosures. We expect to have results from the pilot in the Spring.

APPLESEED BACKGROUND

Appleseed is a non-profit network of 16 public interest justice centers in the United States and Mexico. We are dedicated to building a society where opportunities are genuine, access to the law is universal and equal, and government advances the public interest.

Appleseed uncovers and corrects injustices and barriers to opportunity through legal, legislative and market-based structural reform. Working with our huge pro bono network, we identify, research, and analyze social injustices, make specific recommendations, and advocate for effective solutions to deep-seated structural problems. Together, Appleseed and Appleseed Centers form a network for positive change, building a society that provides each individual access to justice and a genuine opportunity to lead a full and productive life.

Our comments for the record coincide with the Committee's recent hearing entitled, "Leveraging Remittances for Families and Communities." As long-time advocates in the remittances market and with a clear understanding of its effect on immigrant communities, Appleseed is uniquely poised to offer its insight and recommendations to the Committee.

STATEMENT FOR THE RECORD BY AMBASSADOR LARRY L. PALMER, PRESIDENT, INTER-AMERICAN FOUNDATION

Chairman Engel and distinguished members of this subcommittee, I appreciate the opportunity to submit for the record information about ongoing initiatives of the Inter-American Foundation (IAF) that address the relationship between migration, remittances and grassroots development. The IAF recognizes the significant impact remittances have in many of the communities where we work, and is exploring approaches to help channel some of those resources into development initiatives that contribute to the betterment of communities in ways that extend beyond meeting the basic needs of family subsistence to those that have a long-term, sustainable impact on communities at large.

As you are aware, the IAF is an independent foreign assistance agency of the United States government that provides grants for grassroots development in Latin America and the Caribbean. The IAF responds to self-help development projects proposed by the poor themselves and the organizations that support them. It also encourages partnerships among community organizations, businesses, and local governments directed at improving the quality of life for poor people and strengthening democratic practices. Such partnerships include relationships between individual and organized migrants and their home communities.

Since 1999, the IAF has funded approximately 20 grassroots development projects that address the direct and indirect connections between migration, remittances and development. Some programs aim to indirectly channel remittances toward income generating activities, while others are designed around a direct partnership between remittance senders or migrant organizations and groups in the community of origin. The following highlight several recent IAF projects in Mexico and El Salvador:

In Mexico, the IAF funds Asociación Mexicana de Uniones de Crédito del Sector Social, A.C. (AMUCSS), whose mission is to provide quality professional services to marginalized populations by creating and operating rural financial institutions. The IAF grant is being used to promote transnational cooperation between U.S.-based migrants and their communities of origin. The program focuses on the creation of four pilot banks in rural areas, particularly in indigenous regions and areas of high out-migration. The IAF grant supports the mobilization of new resources for micro-credit loans, and provides training and technical assistance to strengthen community banks. The project is designed to improve the administrative capacity and financial viability of micro-banks, increase financial literacy, promote access to savings and credit products for the rural poor, reduce remittance transfer costs, mobilize new resources in support of community banks, and strengthen social and economic ties to transnational communities.

Alianza para el Desarrollo de la Microempresa (ALPIMED) is an alliance of 10 organizations in El Salvador that operate micro-credit funds as part of broader eco-

nomic development and social service programs. ALPIMED received a grant from the IAF to increase the use of remittances for investment by giving business loans to families who receive remittances. ALPIMED educates both senders in the United States and recipients in El Salvador about small businesses, provides loans for investment in these enterprises, and offers expertise in managing credit. The project has shown that migrant hometown associations can have a significant economic impact in communities of origin by investing in income generating ventures. ALPIMED and other IAF grantees continue to explore opportunities to expand collaboration around municipal planning efforts, ranging from infrastructure and education to enterprise development.

After the 2001 earthquakes in El Salvador, Asociación Cooperativa de Ahorro, Crédito y Agrícola Comunal de Paraíso de Osorio (COPADEO) received a grant from the IAF to help micro-businesses get back on their feet by operating a savings and loan fund. During IAF monitoring of the project, we discovered that many clients reported using a portion of their remittances to repay their loans. COPADEO routinely took this source of income into consideration when assessing the viability of a credit applicant. Since remittance receivers had a very low default rate, COPADEO decided to partner with Western Union to create a transfer service for COPADEO clients with reduced fees and began educating remittance recipients about other financial services. The savings rate for those remittance recipients is much higher than the average savings rate of non-remittance receivers and close to the recommended goal for the hemisphere's microfinance institutions.

Also located in El Salvador, Asociación de Organizaciones de Microfinanzas (ASOMI) received a grant from the IAF to support a coalition of small and mid-sized financial institutions that receive remittances. ASOMI joined with Microfinance International to offer cheaper, faster, more accessible remittance transfer services via the internet through five ASOMI members, proving that community-based credit programs can successfully compete in the international market.

To identify new ways of promoting more effective collaboration between migrants and their hometowns, as well as to support income generating opportunities in regions of high out-migration, the IAF conducts ongoing monitoring of these and other projects. We have also sponsored several workshops that enable grantees to share experiences and reflect on initial lessons learned. In addition, the IAF sponsored a series of roundtable dialogues in six U.S. cities to facilitate interaction among migrant leaders, academics, representatives of local governments and others interested in the links between migration and grassroots development. As partners in grassroots development, our work has led us to recognize that individual migrants and organized hometown associations offer not only funding, but also important experiences, skills and knowledge about how to most effectively support the development of their communities of origin. We continue to reach out to hometown associations, sponsor occasional research projects in the area of leveraging remittances, and share lessons learned with other organizations.

The IAF's interest in the intersection between migration, remittances and development initially focused on individual and collective financial transfers. Over time, the agency's interests have expanded to emphasize non-financial exchanges between migrants and hometowns. While some IAF grantees operate micro-credit and remittance-related programs, we believe the financial component is just one of several important areas for research and action related to migration and grassroots development.

As migrants and home communities work together to set priorities and implement projects, we are interested in finding better ways to ensure balanced participation and effective negotiation between migrant and hometown partners. The IAF is interested in learning more about the role of migrants as local development advocates, not only as resource providers. Previous IAF-funded activities have highlighted the potential to increase the role and prospects of women and young people in migrant organizations and in regions of high out-migration.

The IAF and its grantees are dedicated to working collaboratively with local, national and international organizations to learn about and support grassroots development in Latin America and the Caribbean. The IAF will continue to encourage proposals from and provide support to creative initiatives involving links between migration, remittances and development.

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